Taiwan's Pension Crisis

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With the emergence of democratisation in Taiwan, political parties compete over social welfare and pension benefits to please voters. Voters want substantial increases in social welfare and pension benefits but are fiercely resistant to tax increases. Taiwan's government debt has continued to accumulate considerably. The Ministry of Civil Service estimates that many of the pension systems will go broke soon. Taiwan's pension system is rather complicated; it is being restructured. Without a sustainable pension system, future generations of taxpayers will shoulder the pension spending on current generations. Ending Taiwan's low economic growth is a prerequisite for a sustainable pension system.

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Democratisation has sown the seeds of Taiwan's pension problems, with political parties competing over social welfare and pension benefits to please voters. Government employees and other workers are covered under different pension schemes. Taiwan's generous pension system will not be affordable when its economy is growing at a low growth rate. Furthermore, a rapidly ageing population became a pressing demographic issue in Taiwan in the 1990s due to industrial transformation, family planning, and urbanisation in the 1970s and 1980s. An enlarging ageing population has turned out to be a politically strong force to be reckoned with during elections. Both the burgeoning retired population and the age of retirement will place an extremely heavy financial burden on the government.

Taiwan's complicated pension system is under restructuring. In 2013, the ruling Kuomintang (KMT) proposed that it would embark on pension reforms, but did not make much progress, as many pensioners are strong KMT supporters. In 2016, the Democratic Progressive Party (DPP) came to power and began radical pension reform, but it led to discontent among military personnel, civil servants, and public school teachers. Pension reform has given rise to class antagonism between different classes and generations, and it has adversely affected politics. On 24 November 2018, the ruling DPP won only six of the 22 city mayor and county commissioner seats in local elections. The opposition KMT gained a substantial 15 seats. Future generations of taxpayers will shoulder the pension spending on current generations if the pension system is not made sustainable, for which a prerequisite is an end to low economic growth.

Taiwan's pension system, based on the World Bank's multi-pillar system (Holzmann and Hinz 2005), has five pillars (Table 1).

The non-contributory "zero or basic pillar" for the social welfare programmes covers the (i) medium-income elderly living allowance (NT$3,600 per month) and low-income elderly living allowance (NT$7,000 per month), (ii) old-age farmer's welfare allowance (NT$7,000 per month), (iii) veteran home care allowance (NT$14,150 per month), (iv) old-age basic guaranteed pension (NT$3,500 per month), and (v) old-age indigenous welfare allowance (NT$3,500 per month).

The first pillar comprises mandatory public insurance programmes: military personnel insurance, civil servant, and public school teachers' insurance, labour insurance, farmer's health insurance, and the new national pension programme launched in 2008.

The second pillar comprises mandatory occupational pension programmes: the labour pension plan, private school pension plan, and Public Service Pension Fund (PSPF). The PSPF covers political appointees, civil servants, public school teachers, and military personnel.

Currently, the contribution rate for the PSPF is 12% of twice the base salary for

Table 1: Taiwan's Multi-pillar Pension System

Pillar	Programme	Content
Zero or basic pillar	Social welfare programmes	Medium- and low-income elderly living allowance, old-age farmer's welfare allowance, veteran home care allowance, old-age basic guaranteed pension, and old-age indigenous welfare allowance
The first pillar	Mandatory public insurance programmes	Military personnel insurance, civil servant, and public school teachers' insurance; labour insurance; farmer's health insurance; and national pension programme
The second pillar	Mandatory occupational pension programmes	Labour pension plan, private school pension plan, and PSPF
The third pillar	Voluntary commercial pension programmes	Commercial pension plan
The fourth pillar	Ethical supporting system	Family and intergenerational support for the elderly

Source: Compiled by the author.

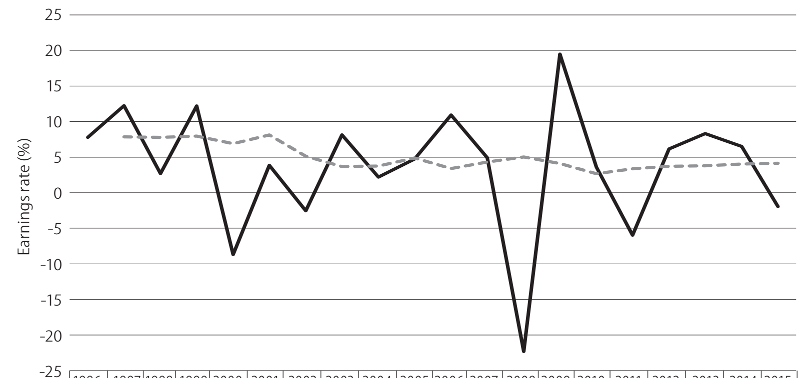
military personnel, civil servants, and public school teachers. These three categories shoulder 35% of their pension amount; the government covers the remaining 65%. Their pension payment is guaranteed by the government. The government employs military personnel, civil servants, and public school teachers, and is both employer and pension supplier.

In 1984, the passing of the Labor Standards Act brought the old pension system into existence. The employers contributed 2%–15% of a labour's monthly salary to their pension fund. This pension system faced the issues of portability and underfunding. To solve these problems, a defined contribution scheme was introduced in 2005. Employers shoulder the contribution to the labour pension fund, which is at least 6%. The contribution for the private school pension fund is 12% of twice a private school teacher's salary. This constitutes 35% of the total amount, while their employers and the government shoulder 32.5% each. These pension accounts are fully portable. Based on the new labour pension scheme, labourers may begin collecting their pension payments upon reaching the age of 60, regardless of retirement status. They can receive retirement benefits and remain in the workforce too.

The third pillar comprises voluntary commercial pension programmes, which serve as a complementary individual savings account plan. Finally, the fourth pillar is an ethical support system for Taiwanese families, which involves family and intergenerational support for the elderly.

By 2015, there were 6,29,000 participants in the PSPF, of which civil servants were about 2,88,000 (45.8%), public school teachers about 1,89,000 (30.0%), and military personnel 1,52,000 (24.2%). There were 2,86,000 recipients of regular benefits, of whom 1,27,000 (44.6%) were civil servants (including political appointees), 1,04,000 (36.3%) public school teachers, and 55,000 (19.1%) military personnel. In 2015, the PSPF received NT$59.7 billion in contributions from civil servants, public school teachers, and military personnel; it paid out NT$70 billion in pension benefits, which is 117.3% of the total contributions (Table 2).

Figure 1: Public Service Pension Fund Annual Earning Rates, 1996–2015



	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Earnings rates if added with the unrealised gains and loss	7.78	12.25	2.68	12.21	-8.70	3.85	-2.53	8.13	2.21	4.74	10.93	4.91	-22.3	19.49	3.60	-5.98	6.17	8.30	6.50	-1.94
Targeted earnings rates		7.86	7.78	7.95	6.90	8.12	5.12	3.69	3.74	4.87	3.38	4.30	5.02	4.11	2.67	3.35	3.70	3.78	4.03	4.13

Source: A*nnual Report 2015*, Public Service Pension Fund Management Board, Taiwan.

At the end of 2015, the new labour pension fund stood at NT$1.5213 trillion. Violent fluctuations in global financial markets reduced the actual rate of return for the new fund to –0.0932%, down from 0.3814% in 2014 (Bureau of Labor Funds 2017).

Australia, Denmark, Sweden, the Netherlands, and Norway have the most sustainable pension systems (Allianz Group 2016). Taiwan's ranking, 14th from the bottom, is falling rapidly, due to the failure of its pension reform efforts. The earnings rates for the PSPF experienced stable growth from 1996 to 2015. Exceptions were the tech bubbles in 2000 (–8.70%) and 2002 (–2.53%); the subprime mortgage crisis in the United States (US) in 2008 (–22.3%); the European debt crisis in 2011 (–5.98%); and the lower-than-expected global economic recovery in 2015 (–1.94%) (Figure 1). The military pension system will go broke in 2020, the labour pension system in 2027, the pension system for teachers in 2030, and that for civil servants in 2031 (*China Post* 2016).

The pension system for civil servants, public school teachers, and military personnel has received a low contribution rate, but it makes higher payments than other occupational pension systems. That has resulted in social conflict. As of 2016, each retired civil servant, public school teacher, and military personnel received, respectively, an average of NT$56,383, NT$68,052, and NT$49,379 in monthly pension payments, which included an 18% preferential savings interest rate, but the monthly pension for regular workers ranged from NT$1,0,445 to NT$39,685.

In Taiwan, 42% of retired civil servants (or 56,773 retirees) received in pensions and benefits more than NT$60,000 per month, almost three times the minimum wage (NT$21,009 in 2017) (*Taipei Times* 2016); 8,292 retirees received between NT$80,000 and NT$1,00,000 per month, and 646 retired civil servants received more than NT$1,00,000. Spending on the retirement and survivor relief (including pensions of civil servants, public school teachers and military personnel) accounted for 7.6% of the central government's budget expenditure in 2016 (NDC 2018). If the pension system is not reformed

Table 2: Public Service Pension Fund Contributions and Payments

Period	Contributions/Payments	Civil Servants	Public School Teachers	Military Personnel	Total
2015	Contribution amount (NT$100 million)	279	220	98	597
	Payout amount (NT$100 million)	306	249	145	700
	Payout/contribution ratio (%)	109.80	113.20	147.40	117.30
As of the end of 2015	Contribution amount (NT$100 million)	4,401	3,406	1,406	9,213
	Payout amount (NT$100 million)	1,953	1,947	1,238	5,138
	Payout/contribution ratio (%)	44.40	57.20	88.00	55.80

Source: *Annual Report 2015*, Public Service Pension Fund Management Board, Taiwan.

urgently, this figure is likely to rise rapidly, burden public finance, and crowd out government spending from economic development.

Democratisation sowed the seeds for Taiwan's pension problems. Political parties offered competing social welfare and pension benefits to please voters, and the social welfare policy emerged as a winning strategy in Taiwan's democratisation during the 1990s, but it was not until 1992 that the problem of poverty in relation to population ageing became a political issue.

Pension Politics

In the 1992 legislative election in the Tainan county, the DPP called for the expansion of social welfare and pension benefits (Lin 2014). Su Huan-chih, a DPP candidate, was aware of the poverty issues of older rural farmers. Su Huan-chih campaigned for a non-contributory pension (of NT$5,000) for citizens over the age of 65 in his electoral district. This pension strategy received a great deal of support from the elderly, and the support helped Su Huan-chih win the legislative election. This was the first time a social welfare policy played a decisive role in Taiwanese elections, and this pension strategy had a profound effect on Taiwan's democratisation.

In early 1993, in the Penghu county magistrate by-elections, the DPP candidate Kao Chi-peng called for a NT$3,000 monthly pension for all elderly people over 65, and won; Kao Chi-peng became the first DPP magistrate of the Penghu county. A non-contributory pension for the elderly became a very popular political campaign that resulted in a rather stunning victory for DPP candidates in the 1993 and 1997 elections for mayors and magistrates. For a pension scheme to be successful, however, the fragile local government budgets needed financial assistance from the KMT-led central government. But they did not oblige, and the non-contributory pension scheme for the elderly lasted only two or three years, and DPP mayors and magistrates could not fulfil their electoral promise.

The pension strategy so threatened the ruling KMT that in 1993 they proposed a comprehensive pension scheme for the elderly. To ensure the well-being of older self-employed farmers, the old-age farmer welfare allowance programme was introduced in 1995. In accordance with the Temporary Statute for the Old Age Farmers' Welfare Allowance, eligible elderly farmers have received a monthly pension payment of NT$3,000 since 1 June 1995.

In Taiwan's democratic development, elections are a crucial element. Elections tend to generate strong incentives for the ruling party looking for re-election to use policy instruments that shift government spending more towards government consumption and away from public investment (Rogoff 1990; Brender and Drazen 2008; Hung and Hsieh 2016). In Taiwan, the ruling party prepares the central government budget; in the year preceding an election, the ruling party has a strong incentive to maximise the budget so as to gain support among voters (Gupta et al 2015).

In the 2012 presidential election, the ruling KMT competed against the DPP to offer elderly farmers better allowances in order to gain their support. At first, the KMT proposed adding NT$316 to the original allowance for elderly farmers (NT$6,000). When in its political campaign the DPP proposed increasing the allowance by NT$1,000 (NT$7,000 for each), the KMT then followed suit.

The old-age farmer's welfare allowance pension programme provides qualified elderly farmers lifelong income security, but it comes at a high price. The government spent about NT$56.3 billion on the welfare allowance of elderly farmers in 2013. The Council of Agriculture spends almost half its annual budget on the old-age pension of farmers, thereby crowding out government spending on agricultural development. Spending on the old-age pension of farmers in turn weakens competitiveness and affects the development of agriculture and farm productivity; older farmers continue working to be eligible for a monthly pension, hence postponing the turning over of farming to younger generations and decreasing farm productivity (Chang 2013). Now, however, pension reform has become a political hot potato.

Social Welfare and Budget Deficit

Taiwan enjoyed a budget surplus from 1955 to 1988. Since 1989, however, Taiwan has experienced widening budget deficits. The general government budget surplus stood at NT$38.97 billion in 1988, but in 1989 there was a budget deficit of NT$285.78 billion, a 7.7% share of gross domestic product (GDP). Since 1991, Taiwan launched a new series of major infrastructure programmes, and significantly expanded its social welfare programmes, such as the Six-Year National Development Plan (1991–96) and the National Health Insurance Program (1995).

Due to rapid ageing, the need to finance health insurance programmes became a fiscal burden. An inevitable rapid rise in government spending followed. The build-up of public debt was aggravated by global economic and financial crises, which prompted the Taiwanese government to pursue demand-driven policies for a bailout package, making it extremely difficult to balance the budget. Natural disasters, such as Typhoon Morakot, and massive reconstruction activities depleted government coffers. In 2009, the budget deficit reached a record high of NT$557.25 billion, accounting for 4.3% of the GDP.

Voters like substantial increases in social welfare and pension benefits, but

Table 3: General Government Expenditures on Social Welfare (%)

Year	Total	Social Insurance	Social Relief	Welfare Service	Employment Service	Public Health
1992	8.6	3.0	0.4	3.4	0.2	1.6
1993	8.3	2.7	0.5	3.3	0.2	1.6
1994	8.7	2.8	0.5	3.6	0.2	1.6
1995	12.1	5.0	1.1	4.4	0.2	1.5
1996	15.7	6.8	1.6	5.5	0.2	1.6
1997	15.7	6.1	1.9	5.9	0.3	1.5
1998	14.2	5.9	1.3	5.5	0.2	1.4
1999	13.7	5.5	1.2	5.6	0.2	1.3
2000	16.9	6.8	3.0	5.7	0.1	1.3
2001	17.5	8.9	1.7	5.6	0.1	1.2
2002	15.1	7.1	0.9	5.6	0.1	1.3
2003	15.7	7.7	0.8	5.4	0.2	1.5
2004	15.5	6.8	0.9	6.2	0.1	1.5
2005	15.6	7.1	0.9	6.3	0.1	1.2
2006	16.7	7.4	0.9	6.9	0.1	1.4
2007	16.3	7.1	1.0	6.6	0.1	1.4
2008	15.7	6.3	1.1	6.8	0.1	1.5
2009	14.5	7.1	0.9	5.1	0.1	1.3
2010	16.2	7.9	1.2	5.4	0.2	1.5
2011	17.1	8.6	1.2	5.7	0.2	1.4
2012	20.2	11.3	1.4	6.1	0.1	1.3
2013	20.1	12.0	1.4	5.3	0.1	1.3
2014	19.5	11.1	0.8	6.1	0.1	1.4
2015	20.1	11.7	0.8	6.1	0.1	1.4
2016	20.0	11.9	0.8	5.8	0.1	1.4

Source: *Yearbook of Financial Statistics 2016*, Ministry of Finance, Taiwan.

they are fiercely resistant to increases in taxation. Social welfare spending has risen since 1994, and it accounts for large shares of government spending—20.2% of total spending in 2012 and 20.0% in 2016 (Table 3, p 60). But turning social welfare policy into an election tool creates budget deficit problems and distorts the efficient distribution of public resources. In 1998, the general government budget surplus stood at NT$60.87 billion, but the 2009 budget had a budget deficit of NT$557.25 billion, a 4.3% share of GDP (Table 4). The growth of tax revenues is closely related to economic growth. With the increase in government expenditure outpacing the growth in tax revenues, Taiwan has turned to public debt issues and borrowing to finance the growing budget deficit.

Table 4: Government Budget Deficit

Year	Budget Surplus or Deficit (NT$ billion)	Budget Surplus or Deficit as Percentage of GDP (%)
1992	-304.36	-5.7
1993	-339.97	-5.7
1994	-323.61	-5.0
1995	-350.64	-5.0
1996	-239.60	-3.1
1997	-174.01	-2.1
1998	60.87	0.7
1999	-45.61	-0.5
2000	-356.07	-2.3
2001	-374.92	-3.7
2002	-357.08	-3.3
2003	-267.67	-2.4
2004	-317.65	-2.7
2005	-73.96	-0.6
2006	-37.21	-0.3
2007	-45.41	-0.3
2008	-111.97	-0.9
2009	-557.25	-4.3
2010	-451.25	-3.2
2011	-306.77	-2.1
2012	-356.78	-2.4
2013	-207.61	-1.4
2014	-136.90	-0. 8
2015	17.14	0.1
2016	-54.39	-0.3

Source: *Yearbook of Financial Statistics 2016*, Ministry of Finance, Taiwan.

It is much harder for Taiwan's democratic system to reduce its government debt than to increase it. Sustaining budget deficits could reduce national savings and substantially, negatively impact long-term economic growth. The constant erosion of the tax base and burgeoning spending has left the government no choice but to incur debt to cover the shortfall. The expansion in social welfare spending led Taiwan's government to accumulate considerable debt. Government debt is negatively correlated with economic growth; high levels of public debt are likely to impede economic growth (Adam and Bevan 2005; Reinhart and Rogoff 2010; Feldstein 2016). Growing government debt will be a tax burden for future generations and exacerbate intergenerational inequity. The already heavy public debt is set to continue to rise for the foreseeable future. Taiwan's outstanding debt at all levels (central and local), which stood at NT$2.175 trillion in 1997, reached NT$ 6.214 trillion by the end of 2016, an increase of 185.7% in just under two decades (Ministry of Finance 2017) (Table 5).

Table 5: Outstanding Debt at All Levels of Government

Year	Grand Total (NT$ Million)	As Percentage of Average GDP of the Last Three Years	As Percentage of GDP
1997	2,174,763	30.2	26.1
1998	2,218,571	28.4	24.4
1999	2,322,698	27.4	24.1
2000	2,708,899	28.9	26.2
2001	3,048,535	30.6	30.0
2002	3,165,760	30.9	29.6
2003	3,512,071	33.2	32.0
2004	3,878,450	35.7	33.3
2005	4,100,632	35.9	33.9
2006	4,186,291	35.2	33.1
2007	4,297,374	34.5	32.1
2008	4,374,302	33.6	33.3
2009	4,742,831	35.4	36.6
2010	5,186,842	38.3	36.7
2011	5,468,788	39.6	38.2
2012	5,754,692	40.5	39.2
2013	5,939,798	40.1	39.0
2014	6,095,172	41.3	37.8
2015	61,330,188	40.0	36.6
2016	6,214,461	38.8	36.3

Source: *Yearbook of Financial Statistics 2016*, Ministry of Finance, Taiwan.

Taiwan's government debt and pensions are inextricably intertwined. Spending on the pensions of civil servants, public school teachers, and military personnel reached NT$310.8 billion (DGBAS 2018). The Taiwan government had to allocate NT$77.8 billion to subsidise the 18% preferential interest rate on savings held by civil servants who began their service before 1 July 1995.

Hidden debt is a part of the government's expenditure and burden that is not included in government debt. Hidden debt incurred by the central and local governments was mostly caused by the pension system. By the end of 2015, the combined hidden debt at all levels of government reached NT$17.749 trillion, a record high, and made up mostly of labour pensions and pensions for military personnel, civil servants, and public school teachers. The hidden debt for labour pensions alone totalled NT$8.954 trillion, over half the hidden government debt. The pensions for military personnel, civil servants, and public school teachers accounted for NT$8.137 trillion. If the hidden debt is not contained, total government debt could reach NT$23.88 trillion. Pension reforms must be implemented immediately to curtail government debt.

Ageing Population

Drastic demographic changes have taken place in Taiwan since the 1990s. The proportion of those over the age of 65 exceeded 7% of the overall population in 1993; Taiwan had become an ageing society. In 2016, the population of aged people increased to 13.2%. In 2018, at least 14% of the population is 65, and Taiwan has turned into an aged society. The percentage of people aged at least 65 is projected to increase to 16.8% of the population by 2021 (NDC 2017). In 2026, when 20% of its population will be aged at least 65 years, Taiwan will become a super-aged society. This growth of ageing population will be accompanied by a fall in the working population from 74.34% in 2016 to 70.4% by 2021. With the ageing of the baby boomers in the near future, the ageing trend of the population will become more apparent (Hsieh and Tung 2016).

The most serious challenge to sustaining Taiwan's pension system is posed by population ageing (Shiu 2005), due mainly to low fertility and prolonged life expectancy. Life expectancy reached a record high of 80.2 years in 2015, up from 79.84 years in 2014. The number of retirees is likely to increase, and the increasing number of retirees is likely to raise government expenditure on pensions, healthcare, and social welfare and, therefore, the budget deficit, and it is likely to cut potential tax revenue. Together, all this will impose a considerable tax burden on the younger generations.

The number of dependent elderly people is increasing in Taiwan. In 1991, the dependency ratio for the aged population—the population aged 65 and older as a percentage of population aged 15–64—was only 9.73%; it increased to 14.56% in 2009, 15.03% in 2012, and to 18.0% in 2016; it will rise to 23.8% in 2021 and to 30.8% in 2026. The dependency ratio for the youth, the population aged 0–14 as a percentage of population aged 15–64, was 38.23% in 1991; it decreased to 22.38% in 2009, 19.7% in 2012, to 18.2% in 2016 but it is projected to increase to 18.3% in 2021 and to 19.1% in 2026 (Table 6). The dependency ratio of the population aged 0–14 and of the population aged 65 and older as a percentage of population aged 15–64, or the total dependency ratio, will increase from 36.2% in 2016 to 42.1% in 2021, 49.9% in 2026, and 62.7% in 2036. Under the current trend of population ageing, the dependency of the elderly will be monumental when compared to that of the youth in the foreseeable future. The rapid ageing of the population and the swift weakening of family support have created an urgent need for a sustainable, long-term elderly care policy.

President Tsai Ing-wen pledged in February 2016 that her administration would allocate NT$30 billion from tax revenues and NT$3 billion from the regular government budget. On 29 September 2016, the Executive Yuan promoted a "10-Year Long-term Care 2.0 Program," which includes three tiers. Tier A (flagship stores) comprises community-based integrated service centres, including hospitals, multifunctional daycare centres, and service stations in remote areas. Tier B (specialty stores) consists of "combined daycare service centres," including local health bureaus. Tier C (corner stores) refers to the long-term care stations in alleys and lanes. In 2016, 17 Tier A, 44 Tier B, and 85 Tier C centres were established.

The Tsai administration plans to raise the tax rates on the inheritance and tobacco taxes to finance long-term care. The Executive Yuan announced amendments to the Estate and Gift Tax Act and the Tobacco and Alcohol Tax Act in October 2016, and the Legislative Yuan passed an amendment to the Long-Term Care Services Act to hike the tax on estates, gifts, and tobacco in January 2017. The amendment to the Estate and Gift Tax Act raised the inheritance and gift taxes from 10% to 20%. Inherited assets of over NT$100 million, after deducting the proportion exempted from taxation, will be taxed at 20%. Inherited assets from NT$50 million to NT$100 million will be taxed at 15%. Assets under NT$50 million will be taxed at 10%. The increase in inheritance tax is estimated to raise an extra NT$6.3 billion in tax revenues each year. Increasing the tax on tobacco, from NT$11.8 per pack to NT$31.8 per pack, will raise another NT$15.8 billion in tax revenues.

The business cycle might adversely impact these tax revenues, and the sustainability of tax revenues for long-term care poses a critical challenge for the Tsai administration. Since the 2008 global financial crisis, economic growth has been sluggish, averaging 2.1% for the 2012–16 period. Taiwan's generous pension system is not affordable if its economy grows at a low rate. The weak economy has been accompanied by lower tax revenue and larger debt. On the political front, though the ruling DPP lost the 24 November 2018 local elections, both the KMT and the DPP are still engaging more in finger-pointing than conundrum-solving; they do not seem to be able to set aside their differences and work together to strengthen the economy. If Taiwan's economic policy remains subject to myopic election pressures from either the KMT or the DPP, its political system may need to be reformed as well.

Table 6: Population Projections, 2016–36 (%)

Year	0–14 Years	15–64 Years	65 Years and Over	Total Dependency Ratio	Youth Dependency Ratio	Aged Dependency Ratio
2016	13.4	73.4	13.2	36.2	18.2	18.0
2017	13.2	73.0	13.9	37.0	18.1	19.0
2018	13.1	72.4	14.5	38.1	18.0	20.1
2019	13.0	71.8	15.2	39.3	18.1	21.2
2020	12.9	71.1	16.0	40.7	18.2	22.5
2021	12.9	70.4	16.8	42.1	18.3	23.8
2022	12.8	69.7	17.5	43.4	18.4	25.0
2023	12.8	69.0	18.2	44.9	18.5	26.4
2024	12.7	68.3	19.0	46.5	18.7	27.8
2025	12.8	67.4	19.8	48.4	19.0	29.4
2026	12.7	66.7	20.6	49.9	19.1	30.8
2027	12.5	66.1	21.4	51.2	18.9	32.3
2028	12.4	65.4	22.2	52.9	19.0	33.9
2029	12.3	64.8	22.9	54.3	18.9	35.4
2030	12.1	64.3	23.6	55.6	18.8	36.8
2031	11.9	63.7	24.4	56.9	18.7	38.2
2032	11.7	63.3	25.0	58.0	18.5	39.4
2033	11.6	62.8	25.6	59.2	18.4	40.8
2034	11.4	62.3	26.3	60.4	18.3	42.2
2035	11.2	61.9	26.9	61.7	18.1	43.5
2036	11.0	61.5	27.5	62.7	18.0	44.8

Source: Population Projections for R.O.C. (Taiwan): 2016–2061, National Development Council, Taiwan.

Pension Reform

Government debt, already unsustainable, is expected to grow even more rapidly unless the pension system is reformed significantly and urgently. Nevertheless, the retirement age of civil servants has been falling; the average retirement age dropped from 61.14 in 1996 to 55.72 in 2015. The percentage of civil retirees opting to receive their pensions in monthly payments instead of a lump sum payment increased from 65% in 1992 to 97% in 2015. Both the burgeoning retired population and the advancing age of retirement will place an extremely heavy financial burden on the government. The income replacement percentage for civil servants ranges from an excessive 75% to 95%; civil servants retire early, at 55; and life expectancy is increasing. Pensions might need to be paid for 25 more years. The low birth rate also indicates that an unduly heavy tax burden will be placed on future generations. The pension system faces bankruptcy; the government urgently needs to reform it.

In 2013, the ruling KMT proposed to cut the preferential interest rate on savings accounts for retired civil servants who entered employment before July 1995 gradually from 18% to 12% in 2017, 11% in 2018, 10% in 2019, and 9% in 2020, and set 9% as the ceiling for preferential interest rates. Civil servants could retire if their age and years of service add up to 90, and the retirement income replacement ratio would be limited to 80% (Office of Information Services 2017). Many pensioners are strong supporters of the KMT; with local elections (for mayors, county commissioners, city and county council members, township mayors, council members, and chiefs of village) due in November 2014 and presidential and legislative elections in 2016, it was unlikely that the then ruling KMT would reform the pension system substantively and risk upsetting their vote bank.

Pension reform is one of the five major reforms that President Tsai Ing-wen proposed during her presidential campaign in 2016. The Tsai administration established the Pension Reform Committee on 8 June 2016; its convener is Vice President Chen Chien-jen. Moreover, a comprehensive proposal for pension reform was expected within a year. Given the complexities of domestic politics, reforming the pension system is the toughest task facing the Tsai administration.

There is a significant difference between pensions for government employees and other workers. Discontent is emerging against the reforms among military personnel, civil servants, and public school teachers. Pension reform in Taiwan has fallen into class antagonism between different classes and generations. On 3 September 2016, over 1,00,000 current and former government employees, including civil servants, public school teachers, and retired military personnel took to the Taipei streets to protest the pension reform.

On 19 January 2017, Vice President Chen Chien-jen unveiled the government's pension reform plans for civil servants, public school teachers, and labours. First, the 18% preferential savings rate for retired civil servants and public school teachers will be cut from 18% to 0% over a period of six years. The preferential savings rate will be reduced every two years after retirement, for example, reducing from 18% to 9% in the first two years, to 6% in the second two years, then to 3% in the third two years, and to 0% in the seventh year. However, the 18% preferential rate will prevail for retired civil servants and public school teachers whose monthly pension is below the threshold of either NT$25,000 or NT$32,000 a month.

Second, the retirement age for civil servants and public school teachers will be gradually extended to the age of 65. Third, the income replacement ratio will be reduced from 80% to 75%, and by 1% each subsequent year, to reach the target of 60%.

Fourth, the pension contribution rates of retired civil servants and public school teachers will be increased from 12% to 18%. Beginning in 2018, labour pension contribution rates will be increased by 0.5% each year before the figure reaches the final target of 18%, and the government will allocate NT$20 billion to the Labor Insurance Fund (Pension Reform Committee 2017). The pension reform plans must be approved by the Legislative Yuan.

In June 2017, Taiwan's Legislative Yuan passed the Act Governing Civil Servants' Retirement, Discharge and Pensions and the Act Governing the Retirement and Pensions of Public School Teachers and Employees. Both acts took effect on 1 July 2018. The 18% preferential savings rate for retired civil servants and public school teachers will be gradually reduced to 9% from 1 July to 31 December 2020, and then reduce to 0% on 1 January 2021. The income replacement ratio for retired civil servants and public school teachers will gradually reduce from 75% to 60% over a period of 10 years. In June 2018, the Legislative Yuan passed the Act of Military Service for Officers and Non-commissioned Officers of the Armed Forces. The 18% preferential savings rate for retired military personnel will be gradually phased out over 10 years. The income replacement ratio for retired military personnel who served 20 years is set at 55% with an increase of 2% for each extra year of service. The ratio can be reached to 90% for commissioned officers and 95% for non-commissioned officers. The act also took effect on 1 July 2018. Moreover, the government spending on pension will save NT$1.3 trillion due to the pension reform. In 2018, the government budget deficit is estimated at NT$94.37 billion, 29% down from 2017. Since the reforms have decreased the generosity significantly, the new pension system might not attract many from the outstanding young generations to enter the public service sector. Furthermore, pensioner poverty might emerge as an important political issue in future elections.

Conclusions

Taiwan has successfully transformed its economy from import-substitution to export-oriented since the mid-1960s. Up till the 1980s, Taiwan had been globally recognised as one of a small group of rapidly growing economies with a relatively equal distribution of income. However, average economic growth rates declined in the 1980s, 1990s, and 2000s to 6.67%, 6.84% and 3.81%, respectively, compared to 9.89% in the 1970s. Taiwan has experienced sluggish economic growth since the 2008 global financial crisis and economic growth rates were 0.81% for 2015 and 1.41% for 2016.

Without a sustainable pension system, future generations of taxpayers will shoulder the pension spending on the current generation, resulting in intergenerational injustice in Taiwan. Taiwan's low economic growth will have to end for a sustainable pension system. The road ahead is still bumpy. Raising value added through research and development (R&D) and innovation, which can potentially increase productivity, will be the most effective way to ensure sustainable growth of the Taiwanese economy.

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