

Introduction To Taiwan Pension System

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Kenneth Shih

Actuarial Institute of Chinese Taipei

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First pillar – Social Security

1. Two systems:
 - * Labor Insurance covers employees of private enterprises and members of professional associations (number covered at end of 2006 is 8.7 million)
 - * Government employee and school teachers Insurance (numbers covered at end of 2006 is 0.6 million)
2. Social Security system provide very comprehensive insurance coverage (e.g. death , disability etc.) and lump retirement benefit is one of the benefit provided by Social Security

First pillar – Social Security

3. Premium and benefit basis

- * “ monthly covered wage “ prescribed by government for each plan and updated periodically (monthly covered wage for Labor Insurance at end of 2006 is NT\$ 43,900 or US\$1,350)
- * Premium charged as percentage to monthly covered wage and shared by government , employer and employee
- * Lump sum retirement benefit are expressed as how many months covered wage

First Pillar – Social Security

4. Retirement benefit

4-1 Retirement benefit is portable

4-2 Eligibility for retirement

- * Normal retirement age (e.g. 60)

- * Number of year covered and age
(e.g. 15 years covered and age 55)

- * Years of service with same firm
(e.g. 25 years)

4-3 Lump sum retirement benefit

4-3-1 labor Insurance

- * year 1-15 : one month covered wage per year

- * year 15+ : two month covered wage per year

- * Maximum benefit : 45 months covered wage

4-3-2 Government and School Teacher Insurance

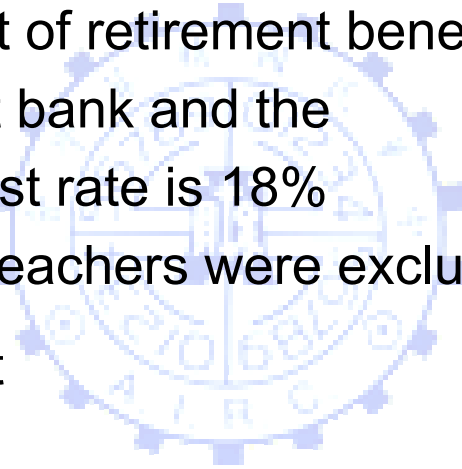
- * 1.2 month covered wage per year of service

- * Maximum 36 months covered wage

First Pillar – Social Security

5. Special feature of Government Employee and School Teachers Plan :

- * May deposit part of retirement benefit with government bank and the guarantee interest rate is 18%
- * Private school teachers were excluded from this benefit



Second Pillar – Employee Pension Plan

1. Labor Pension Plan – governed by Labor Standard Law and cover the same members as labor Insurance
 - 1-1 Old pension plan
 - 1-1-1 Eligibility for retirement benefit
 - * 15 years of service with the SAME firm and age 55
 - * 25 years of service with the SAME firm
 - 1-1-2 Minimum contribution payable by employer is 2% which should be deposited with government agency ; the guarantee investment yield on the fund is two year bank rate .
 - 1-1-3 Lump sum retirement benefit – based on final 6 months average salary
 - * 1 – 15 years of service : 2 months per year
 - * 15 + years : 1 months per year
 - * Maximum benefit : 45 months

Second Pillar – Employee Pension Plan

1-1-4 Listed companies need pension actuary's certification of compliance with accounting standard # 18

1-1-5 Problems :

- * Not portable
- * law enforcement

1-3 New pension plan – Individual Retirement account (effective July 1, 2005)

1-3-1 Solve the problem of old pension plan:

- * Define contribution plan
- * Portable
- * Easy law enforcement

1-3-2 Contribution

- * Employer : 6% salary
- * Employer : can contribute voluntarily 6 % , tax deferrable .
- * Contribution deposited with labor Insurance Bureau and two year bank rate guaranteed
- * Private fund manager can manage the fund for LIB.

Second Pillar – Employee Retirement Plan

1-3-3 Retirement benefit

- Can collect account balance as retirement benefit at age 60
- Year of service less than 15 years should take the account balance as lump sum benefit
- Year of service longer than 15 years may take annuity benefit
- Account balance will buy two annuity
 - Annuity certain payable up to the average age of death (managed by LIB)
 - Annuity payment starts at average age of death should retiree stay alive beyond average of death (Buy this annuity from Insurance company ?)

1-3-4 Problems

- * Guarantee two year bank rate
- * Fund controlled by one government agency
- * No individual investment choice

Second Pillar – Employee Retirement Plan

1-4 New pension plan – Group Annuity (effective July 1, 2005)

1-4-1 Enterprise with employee 200 + may purchase group annuity from insurance company instead of participating in IRA if approved by labor union

1-4-2 Contribution :

- * Employer contribution should be higher than 6%
- * No tax deferral for employee voluntary contribution
- * Insurer should guarantee two year bank rate

1-4-3

Result – No business generated up to now for obvious reason ; Insurance Industry are trying to modify the law .

Second Pillar – Employee Pension Plan

- 2. Government employee and public school teachers pension plan
 - 2-1 private school teacher were excluded
 - 2-2 Contribution shared by government (65%) and employee (35%)
 - 2-3 Eligibility for retirement benefit
 - * 5 years of service and age 60
 - * 25 years of service
 - 2-4 Retirement benefit
 - * year of service between 5 and 15 years should take lump sum benefit
 - * year of service longer then 15 years can take annuity benefit
 - * Annuity payment is 2% per year of service of CURRENT government / school teacher monthly salary ; maximum benefit is 70 % CURRENT salary .

Second Pillar – Employee Pension Plan

2-5 problems – in some situation , the benefit are too rich

- When the 70% current salary annuity combined with the 18% interest generated from the retirement benefit deposited with government bank from First Pillar ; the total retirement income may be higher then the salary of employee who are still working
- Very controversial ; now the maximum benefit is reduced to 95% starts from 1.1. 2006.