

# **A Study on the New Civil Servant Pension System, on the Feasibility to Adopt the “Defined Contribution Plan”**

## **ABSTRACT**

Taiwan has officially joined the “aging society” as defined by the WHO (up to 7% of the senior citizen ratio) because senior citizens aged over 65 accounted for 7.1% as of December 31, 1993. The official forecast by the Council of Economic Planning & Development of the Executive Yuan (the Cabinet) indicates that the senior population age over 65 will hit 10.15% of the total population by 2008 and even up to 20.04% by the year 2027. Taiwan significantly outpaces their European and American counterparts in terms of the ratio of aging citizens. The aging society problems will likely turn from bad to worse in the future. In turn, the social security system is receiving mounting awareness and attention. The efforts to provide sound financial standing, secured social systems and protection to senior citizens will represent the new orientation of future welfare development in Taiwan.

The present study takes the “Three-Level Assurance” oriented senior citizen financial security system proposed by the World Bank as the very grounds to elucidate the positioning of the Public Servant System in the senior citizen financial security system, annotate the evolution pension system of the Second-level Assurance to clarify the attribute and justification of the pension granted to civil servants. The present study is intended to help draw up a retirement system and financial planning so that the entire system will develop toward appropriate and justified orientation.

With awareness of the importance of pension, those advanced countries have developed sound and mature professional pension systems for quite some time already. In the Republic of China, the retirement system for civil servants was initiated in 1943 and has been updated four times during the subsequent half century. The pension has been granted as a sort of benefit, or a government favor. As a result, pension to civil servants has become a heavy financial burden to the government and has been illogically insufficient. In response, the competent authorities concerned began initiating research for a reform of the pension system in 1973 and completed the research program 22 years later. The new retirement system was officially put into place on July 1, 1995. Between the old and new retirement system, the greatest difference is that the pension fund is jointly contributed by both the government and civil servants themselves in the new system instead of being solely budgeted by the government as a sort of government favor in the old system. Except for this, the aspects of the target retirees, seniority requirements, prerequisites for retirement and the principles to grant pension largely remain unchanged. Pension is paid in an unchanged "Defined Benefit Plan". Now, with the new system in enforcement for over eight years, the new system proves to have primarily attained the goals in improving the method of pension fund raising, easing up the government's financial burden, providing added pension to retirees and better safeguarding the senior civil servants. The problems currently confronting the pension practice are largely the mounting financial burden to the government as incurred by the retirement expenses. Meanwhile, the actual calculation outcome consigned by the Pension Management Committee indicates that the Pension Fund is on the verge of financial difficulties.

The present study is to analyze the terms of pension payment to determine the feasibility there-of and to solve the present financial problem by means of the

“Defined Contribution Plan”. For better a understanding into the issues, the present study elucidates the connotation, strengths and weaknesses of the “Defined Contribution Plan” and “Defined Benefit Plan”, as well as the precedents in Taiwan in adopting such two systems. Where a reform in the policy of pension payments will create quite an extensive impact, the feasibility of the policies calls for prudent analysis to enumerate a few feasible alternatives before further analyses into a few aspects of the assessment.

To solve the financial difficulties in the Pension Fund, for instance, other than the economic analyses, the reform of the system must live up to the current political ecology before it can ensure the effects expected through the enforcement. Whether or not the policies are detailed and comprehensive enough will determine whether or not the policies are acceptable and whether or not they can be put into successful enforcement without a ensuing problems. During the extended practice under the old system while pension was budgeted as a sort of government favor, the pension system led to a heavy financial burden and shortcomings on the government. The new pension system was successfully put into enforcement in July 1995, thanks to the unanimous support from the political parties, congress, competent authorities concerned, civil servants as well as scholars. Now, in an effort to solve the current financial problems under the new system, the pension will be paid under the “Defined Contribution Plan”. Will the present reform receive equal political support? It calls for well-advised analyses. Besides, in a change in the pension system, the top impact will be upon the pension income to civil servants. After the pension is under the “Defined Contribution Plan”, will civil servants receive added pension income and receive better security in their retired life? These will be the key issues under the present study. The core consideration should aim at the retired lifestyle, which

should be equivalent to the pre-retirement one. The hands-on experiences in enforcing civil servant pension systems accumulated in other countries the world over, including precedents of their practices in adopting the “Defined Benefit Plan” and “Defined Contribution Plan” will function as the constructive examples in Taiwan’s policymaking process regarding pension systems, and will be, therefore, be covered in the assessment in the present study as well. The present study will launch an overall assessment on the aforementioned key issues. Aiming at the existent political and economic climate as well as the professional characteristics, the present study will generalize the individual effects and benefits under “Defined Benefit Plan” or “Defined Contribution Plan” under the new retirement system to find out the optimal terms of payment to assure maximum possible benefits to civil servants, safeguard the quality of their retired lifestyle to be equivalent to the pre-retirement lifestyle. The findings and conclusions yielded through the present study will function as handy reference materials for policymaking. By submitting the findings and conclusions so yielded, the study will help the policymakers draw up sound enforcement rules to ensure the sustained existence of the Pension Fund, alleviate the potential financial crises through reasonable design of systems and effective management as the very fundamentals. Further by offering constructive proposals, the study will help the competent authorities of the government solve the financial difficulties to ensure sustained sound competence of pension payments and to, in turn, safeguard the Pension Fund and the Fund’s beneficiaries.