11. Searching for Welfare Model(s): Taiwan's Social Welfare Policy in the Millennium

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I. Introduction

Taiwan's social welfare policies have based themselves upon the Commonwealth ideal expounded by Confucius some 2500 years ago. The embedded principles are that there will always be someone to take care of the aged, there are always opportunities to fully utilize the talents of the country's youth, there are always helping hands around to look after the needs of children, and there will always be assistance available for the single, the widowed, the handicapped and the weak. The 1965 introduction of 'The Present Stage Social Policy under Dr. Sun Yat-sen's Principle of Livelihood' may be regarded as guidelines for the government's development of social welfare in Taiwan. The later promulgation, in 1994, of the 'Social Welfare Policy Guidelines' was merely a modification of the previous policy in accordance with the then changing external environment.

When discussing the scope of social welfare, there seldom exists any

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general consensus. Broadly speaking, health care, housing, public assistance and education should all be treated as branches of social welfare. However, social welfare within Taiwan today is narrowly confined under the following three main headings: social relief, social insurance and welfare services. Social relief is targeted at those individuals or families living below the poverty line; social welfare services, literally speaking, are supposed to cater to the needs of people from the cradle to the tomb, yet they normally function under the tight budget constraints of a country at different stages of socio-economic development. Thus, social welfare services in Taiwan have been criticized as residual and not full-fledged. As to a country's policy on social insurance, this should cover the areas of health care, pensions, occupational injury and unemployment; however, Taiwan has thus far launched only the universal health insurance. Although the public pensions system has been sketched out, it has yet to be implemented, and policy measures aimed at dealing with occupational injury and unemployment have also been covered only sporadically. In order to avoid welfare dependency, the welfare service provisions are targeted mainly at economically deprived groups, whilst the social relief programs include means-testing procedures. It seems from all the indications that the government has opted for an insurance-based social welfare system wherein one must expect to pay for whatever one expects to receive. Table 1 shows the changes in the content of social welfare over a period of almost thirty years from 1972 to the present.

This paper aims to examine the most recent developments in social welfare policy in Taiwan pertaining, in particular, to the formulation of a public pensions system. It begins with a brief review of the welfare retrenchment experiences and trends of the advanced countries, followed by the introduction of some salient socio-economic-political features besetting Taiwan's social welfare policy development. The paper concludes with an illustration of some of the issues debated during the process of the formulation of a public pensions system, heeding the lessons learned from the experiences of some of the advanced countries. Some implications of the newly elected government's policy towards the already formulated public pensions system are also examined in order to amplify the dynamics of the social welfare policy both within and outside of the country.

Table 1 Social Welfare Content Change in Taiwan, 1972 to the Present

Year	Prior to 1972	1972-1976	1977-1988	1989-1992	1993-Present
Item Change	Social Welfare Expenditure	Social Welfare Expenditure	Social Welfare Expenditure	Social Security Expenditure	Social Welfare Expenditure
Content Change	Civil Servants' Retirement Benefits and Insurance. Social Relief & Health	Civil Servants, Military Servicemen Retirement Benefits and Insurance. Veterans' Settlement and Health Care. Military Servicemen' Family Income Maintenance. Social Relief Health.	Retirement Benefits and Insurance. Social Relief Health	Social Insurance (Retirement Benefits Included). Social Relief Welfare Services. Employment Health Care. Public Housing and Community Development. Environmental Protection	Social Insurance Social Relief Welfare Services Employment Health Care

Note: With effect from 1993 ' Retirement Benefits' and ' Community Development & Environmental Protection' were separated into two independent items.
Source: Council for Economic Planning & Development, (2000), *The Status-Quo, Problems & Policies of Taiwan's Social Welfare Development*, p.8.

II. Social Welfare Development Experiences and Trends in Advanced Countries

Overgenerous social welfare systems and the overprotection of labor are believed to be the two main reasons for the acceleration of labor costs in Western European countries since 1990. Increasing labor costs have further hindered employers' incentives to hire more labor, thus impacting even further on the working class in general. Research by the World Economic Forum (WEF) indicates that the high unemployment rates and low economic growth rates within the European Union during the 1990s were due mainly to the massive social welfare expenditure throughout the region. Nobel Prize winner Dr. Gary S. Becker (1996) pointed out that an increase in social welfare expenses may lead to higher labor costs and hence, this has ultimately contributed to the higher unemployment rates witnessed by the European member states over the past 15 years. This is perhaps the main reason why in recent years, most of these European countries have pursued welfare retrenchment measures, such as cutting back on the level of benefits or tightening up the eligibility rules, given the extremely slim likelihood of raising additional fees/taxes. To put it another way, the welfare retrenchment occurring over the past few years in Europe may be characterized under the following main headings:

1. Social Insurance

Self-sufficiency or maintaining a long-term financial balance is the key principle.

a. Health Insurance:

The following measures were taken to ensure both the efficiency and quality of medical services.

- reform of the payment system to maintain a reasonable growth rate of medical expenses;
- strengthening of the competition mechanism amongst medical service providers; and
- Development of nursing care insurance to meet the needs of the disabled and aging population.

b. Pension Insurance:

- postponement of the pension provision age;
- extension of the duration of receipt of the basic pension provision;
- cutbacks in benefits paid;
- broadening of private sector participation in pension management; and
- Development of multi-tier social insurance schemes.

c. Unemployment Insurance:

- restriction of the unemployment benefits provision conditions;
- reduction in unemployment benefits;
- Reassessment of the possibility of integrating unemployment insurance into other ancillary employment promotion mechanisms in order to develop a comprehensive employment insurance system.

2. Social Relief

The avoidance of welfare dependency is the guiding principle.

Generally speaking, some of the major reform trends include the tightening up of means testing or eligibility requirements, enhancing the recipients' employment capabilities and the substitution of welfare with workfare. Furthermore, in order to help to alleviate the financial burden of the government, most European countries have tried to reevaluate the roles of central government, local government, enterprises and each individual citizen's social welfare rights and duties.

In order to promote the efficiency of social welfare, many countries have also tried to reform their welfare administrative system. Aside from incorporating such market mechanisms as NGOs and NPOs into their social welfare provision systems, a more comprehensive approach, involving a blend of economic and social factors such as finance, human resources and economic development into a single welfare policy has also won greater attention. Table 2 provides details of the ways in which some of the advanced countries have reformed their social welfare programs.

III. Current Predicaments in Taiwan's Social Welfare Development

1. Background to the Rapid Social Welfare Development: Aging Population, Changing Family Structure and Political Atmosphere

As already mentioned, although the idea of social welfare has existed in Chinese culture for thousands of years, Taiwan's social welfare programs – however limited in their coverage they may look in their modern form – did not materialize until 1965. The massive implementation of social welfare schemes was nevertheless initiated in 1995 with the government's introduction of the universal health insurance program. There are, of course, many aspects to the background to the government's full-fledged introduction of massive-scale welfare programs. Amongst other things, the growing strength of the opposition party, the Democratic Progressive Party (hereafter DPP) presented challenges to the

Table 2 Welfare Retrenchment Measures Adopted in Advanced Counties, 1993-1995

Item	Country	Content
1. Old Age Pension Benefits		
Postponement of the benefit receiving age or of the full payment duration	France	Extended the full payment's duration from 37.5 years to 40 years.
	Italy	Extended the full payment's duration from 15 years to 20 years by 2000.
	Japan	Extended the full payment's receiving age to 65 starting 1994.
	New Zealand	Postponed benefit-receiving age from that of 60 in 1993 to 65 in 2001.
	US	First stage: extending the benefit receiving age from the existing 65 to 66 in 2009. Second stage: Further extending the benefit receiving age from 66 to 67 in 2027.
	Portugal	Extended the full payment duration from 120 months to 180 months; and extended the female benefit receiving age from the existing 62 to 65.
Changes to the method of benefit calculation	France	Change from the average income of the highest 10 years to 25 years.
	Portugal	Change from the average income of the highest 5 years in the last 10 years of working life to f the highest 10 years in the last 15 years of working life.
Extending to extra insured years	Ireland	Extended old-age pension from 3 years to 10 years; survivors' benefits from 3 years to 5 years.
	Portugal	From 10 years to 15 years.
Minimum period of residency for receiving pension benefits	Finland	At least 3 years of citizenship after 16 years of age (1994); for those who receive survivors' benefits, the beneficiaries must have resided in Finland since 16 years of age; the old-age, the survivors' and the widowed benefits are adjustable to the duration of their residency.
Adjustments to level of benefits	France	Benefits level is assessed in accordance with wages, and adjusted according to price level.
	Spain	All benefits will be made adjustable with consumer price index, but not with wages, price and other economic indices anymore.
Adding means testing for high income groups	Australia	The original 60% of the basic pension granted to the survivors will be adjusted to 40 % for higher income.
	Denmark	All who receive pension benefits ought to go through means testing; not just those aged between 67-70.
Encouraging longer working life	US	For those who still stay in job while qualified to receive pension benefits, the payments for higher income group will be changed from reducing one out of every two dollars to one out of every three dollars.
	UK	Abolished ' retirement age' regulations in 1989 and adjusted pension benefits according to retirement age (the later the better).

Table 2 Welfare Retrenchment Measures Adopted in Advanced Counties, 1993-1995(Continued)

Item	Country	Content
2. Unemployment Benefits		
Limit the payment duration	Belgium	Shorten the duration of long-term unemployment.
	UK	Substitute ' Searching for job allowance' for ' unemployment benefits and income maintenance subsidies'.
Reducing benefits	Germany	Reduce 3% unemployment benefits, for those who have child, reduce 1%.
	Ireland	Abolish the system of income-based unemployment benefits, increase 10% basic unemployment benefits, but increased benefits ought to be taxed.
	Switzerland	Reduce the benefits for those who do not have dependents, from 80% to 70%, yet increase the time from 250 days to 400 days.
Extend the waiting period	Belgium	Extend the waiting period for students or dropouts.
	France	Extend eligible duration for those who apply for the second time unemployment benefits.
	New Zealand	Parents have to be responsible for their children until age 18. Income maintenance will be granted to those who come from broken families or serious situation that they are not able to stay with their parents.
	Switzerland	Extend 5 days of waiting period.
3. Family Allowances		
Means testing where family income is above a certain level	Germany	Those families with income above certain level and have more than 3 children, the allowances will be cut into half.
	Netherlands-s	Only families with one child may enjoy allowances in accordance with level of living; the amount of allowances for families with children above 6 years of age will be reduced.
	Spain	Except the serious handicapped families, all the family allowances will be frozen.

Source: Council for Economic Planning & Development, 2000, pp.14-5.

Then ruling party, the Kuomintang (hereafter KMT).[1] The DPP often wooed the needs of the underprivileged segments of society and experimented with different types of welfare schemes such as the 'elderly living allowance' within local areas under their jurisdiction; in contrast, the KMT was viewed as less responsive to the needs of the grassroots' people.

Meanwhile, the demographic, social and economic changes of the past two decades also compelled the government to adopt a different set of welfare approaches. The driving forces include, for example, the 8.4% of the total population who have now reached the age of 65 and above; it is

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[1] The DPP has already become the ruling party after winning the March presidential election in 2000.

estimated that this trend will grow to 10% in 2011 and 20% by 2031 (CEPD, 2000). Data also reveals that there are growing numbers of elderly people living alone and receiving no economic support from their children - as had been the traditional norm (CEPD: 2000). Furthermore, due to the increasing importance of the nuclear family, the traditional function of mutual assistance within the extended family is declining, whilst the divorce rate and the number of single-parent families is increasing, creating further welfare demands. The growth in national income is not necessarily congruent with income distribution; income disparity between the wealthiest 20% and the poorest 20% of families has widened from the 4.21:1 ratio of 1981 to the 5.51:1 ratio of 1998 (CEPD: 2000). The fact that more and more women are now participating in the labor force also implies that the care of the elderly and children is a need that will need to be addressed in the future.

2. Existing Welfare Predicaments

The following welfare problems apparent in Taiwanese society today deserve particular endeavors by the government:

a. There are currently approximately four million citizens (1/5 of the total population) not involved in the labor market, whose old-age economic security is not protected. Even for those citizens who join the military, work as civil servant and participate in the labor insurance programs, their economic protection after retirement is insufficient since the existing retirement programs are designed on a lump-sum rather than an annuity basis.

b. The country’s unemployment insurance system has yet to be established: this system will become increasingly important with the growing unemployment problems stemming from the economic downturn and Taiwan’s structural transformation.

c. Although the universal health insurance program has already been implemented, underprivileged groups are still left out of the system due to their inability to pay; the present coverage is approximately 96%. In addition, citizens living in remote areas often encounter accessibility problems due to the unequal distribution of medical resources.

d. Some government allowances such as the 'low-income elderly living allowance', 'elderly farmers' welfare allowance', 'elderly welfare allowance', 'the handicapped living allowance' and 'the veteran's living benefits' give rise to heated debates on the grounds of equity, because of the lack of clear eligibility requirements.

e. Insufficient and/or poor quality day-care and elderly care facilities trouble many nuclear families, as do the child and juvenile welfare problems.

3. Potential Financial Crisis

Although many problems remain, social welfare expenditure has increased greatly since l995, largely as a result of the implementation of the universal health insurance program and various other welfare allowances programs. Ministry of Finance (MoF) data shows that the proportion of social welfare expenditure grew from the 3.8% of 1980 to 13.5% in 1999 (MoF: 2000), second only to educational expenditure (see Table 3). In terms of the structure of social welfare expenditure since 1995, social insurance ranks the highest, accounting for a total of 45% of all welfare expenditure in 1998, followed by the 38.2% expenditure on welfare services and 12.5% on social relief expenditure (see Table 4).

Between 50% and 60% of the total welfare expenditure is shouldered by central government, presenting the government with significant potential financial pitfalls (see Table 5). For instance, the total cash income of the universal health insurance program between March 1995 and June 1999 was NT$10,791,000 million whilst the corresponding cash expenditure over the same period was NT$10,221,000 million (Bureau of Health, 1999). This may well be successful in achieving a balance in the short run, but will certainly need readjustment of the current contribution rate, or tighter control over expenditure, in order to maintain a balanced budget in the long run given the country's ever-growing aging population problem.

Table 3 Net Government Expenditure, 1981-1999

Unit: NT$10 million; (%)

Year	Total	General Government	Military & International Relations	Education, Science & Culture	Economic Development	Social Welfare	Community Development/ Environmental Protection	Retirement Benefits	Debt	Misc.
1981	4332.2	422.2	1046.2	755.6	1453.7	165.5	91.1	256.4	92.5	50.6
	(100)	(9.8)	(24.2)	(17.4)	(33.5)	(3.8)	(2.1)	(5.9)	(2.1)	(1.2)
1986	6326.6	700.8	1535.9	1295.6	1545.3	405.9	157.9	428.9	213.4	48.4
	(100)	(11.1)	(24.2)	(20.4)	(24.4)	(6.4)	(2.5)	(6.8)	(3.4)	(0.7)
1992	16961.1	1983.5	2394.0	3310.3	4618.2	1350.4	630.4	949.7	1681.2	105.4
	(100)	(11.7)	(14.1)	(19.1)	(27.3)	(8.0)	(3.7)	(5.6)	(9.9)	(0.6)
1993	18592.9	2089.6	2535.1	3590.0	5456.5	1457.6	721.6	1020.8	1668.8	139.4
	(100)	(11.2)	(13.6)	(18.9)	(29.4)	(7.8)	(3.9)	(5.5)	(9.0)	(0.7)
1994	19137.4	2160.7	3218.2	3822.0	4680.8	1585.2	815.4	1112.4	1625.5	117.2
	(100)	(11.3)	(16.8)	(20.0)	(24.5)	(8.3)	(4.3)	(5.8)	(8.5)	(0.5)
1995	20749.3	2224.0	2699.6	3574.9	4381.5	2317.7	653.1	1181.2	3597.5	119.8
	(100)	(10.7)	(13.0)	(17.2)	(21.1)	(11.2)	(3.1)	(5.7)	(17.3)	(0.6)
1996	20059.0	2439.7	2849.3	3744.0	3291.4	2900.0	680.4	1371.2	2681.7	101.4
	(100)	(12.2)	(14.2)	(18.7)	(16.4)	(14.5)	(3.4)	(6.8)	(13.4)	(0.5)
1997	20667.5	2447.6	2919.2	3758.2	2950.4	2949.8	686.1	1797.2	3036.2	122.8
	(100)	(11.8)	(14.1)	(18.2)	(14.3)	(14.3)	(3.3)	(8.7)	(14.7)	(0.6)
1998	22046.6	2572.6	3122.8	4115.1	3350.1	2827.6	748.5	1876.7	3279.6	153.3
	(100)	(11.7)	(14.2)	(18.7)	(15.2)	(12.8)	(3.4)	(8.5)	(14.9)	(0.7)
1999	21275.9	2745.3	2654.2	4270.0	2836.3	2872.0	680.0	1960.8	2926.0	331.3
	(100)	(12.9)	(12.5)	(20.1)	(13.3)	(13.5)	(3.2)	(9.2)	(13.7)	(1.6)

Source: Ministry of Finance, 2000.

Table 4 Taiwan Central Government Social Welfare Expenditure Structure

Unit: NT$ million; (%)

Year	Growth Rate	Total	Social Insurance	Social Relief	Welfare Services	Employment	Health Care
1994	-	91046	30789	3364	44708	2232	9953
		(100.0)	(33.8)	(3.7)	(49.1)	(2.5)	(10.9)
1995	47.7	134464	66194	9533	48354	2053	8330
		(100.0)	(49.2)	(7.1)	(36.0)	(1.5)	(6.2)
1996	6.9	143737	61992	17316	54808	3207	6414
		(100.0)	(43.1)	(12.1)	(38.1)	(2.2)	(4.5)
1997	4.4	150020	62484	15532	62773	3636	5594
		(100.0)	(41.7)	(10.4)	(41.8)	(2.4)	(3.7)
1998	5.1	157703	70994	19793	60192	1743	4981
		(100.0)	(45.0)	(12.5)	(38.2)	(1.1)	(3.2)

Source: Ministry of Finance, 1999.

Table 5 Social Welfare Expenditure at Various Government Levels, 1995-1999 *

Unit: NT$ million

Year	Total (total %)		Central Government		Taiwan Provincial Government		Taipei Municipal Government		Kaohsiung Municipal Government		County Government		Village & Township	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
1995	424091 (21.52)	100	255232 (25.58)	60.2	54381 (16.06)	12.8	27800 (22.42)	6.6	13213 (25.29)	3.1	48125 (13.79)	11.4	25268 (23.32)	6.0
1996	496738 (22.86)	100	272171 (24.94)	54.8	89981 (23.32)	18.1	40930 (28.71)	8.2	15417 (29.10)	3.1	49064 (13.03)	9.9	29175 (23.66)	5.9
1997	539830 (23.42)	100	304787 (26.46)	56.5	90153 (22.19)	16.7	37600 (25.65)	7.0	17772 (30.69)	3.3	57526 (13.91)	10.7	31992 (24.90)	5.9
1998	543733 (26.95)	100	308312 (26.46)	56.5	78338 (19.61)	14.4	45189 (24.47)	8.3	19626 (32.75)	3.6	58966 (15.24)	10.8	33302 (14.48)	10.8
1999	514887 (21.93)	100	294823 (24.06)	57.3	79087 (14.97)	9.9	44330 (26.14)	8.6	20554 (30.01)	4.0	63621 (15.31)	12.4	40817 (31.52)	7.9

Note: * Retirement benefits included.
Source: Ministry of Finance, 2000.

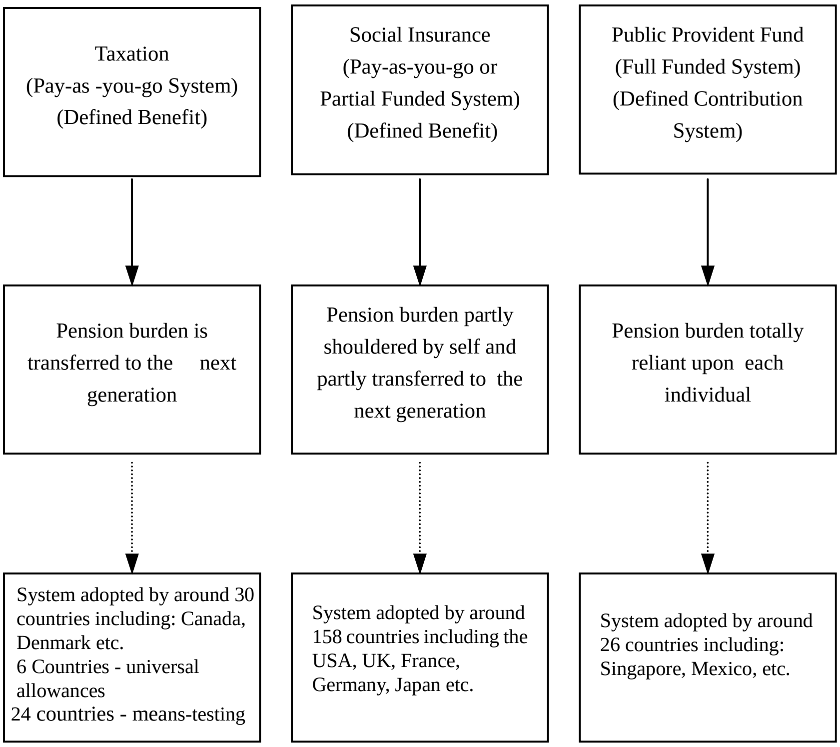
IV. Shaping the Future Public Pension System: What Type of Model Is It?

As indicated earlier, there are some four million citizens in Taiwan who enjoy no pension benefits, however, given the aging trend, in its attempts to become a welfare state it is imperative for the government to work out all-encompassing measures to secure the well being of its citizens in their old age. It is exactly in this vein that the first stage planning of the public pensions system was launched in March 1994, with the preliminary report being completed in May 1995. Nevertheless, due to the implementation of the universal health insurance plan in March of the same year, in order to avoid placing too great a burden on the population within too short a period of time, the public pensions system was not put into place immediately, but instead designated to the CEPD for further study to be reported by August 1996. The second stage planning team of the public pensions system was thus formed in November 1996 and completed its report in June 1998. The implementation of the program was originally meant to be carried out in 2000, but was shelved as a result of the defeat of the KMT in the presidential election of that year.

Rather than providing a full account of what has already been planned, this section focuses on some of the salient issues of public concern pertaining to the public pensions system, whilst attempting to shed light on the type of model adopted, and the reasons why.

The immediate questions raised include: which system is more appropriate? A social insurance program, 'pay-as-you-go', 'partially funded' or a 'defined benefits' system; a public provident fund, 'fully funded' or 'defined contribution' system; or a government budget 'pay-as-you-go' or 'defined benefit' system?

Figure. 1 Comparison of Various Types of Pension Financing Systems



Source: CEPD, 2000

Table 6 Strengths and Weaknesses of Various Types of Pension Financing Systems

System	Strengths	Weaknesses
Taxation	Simple and low administrative cost. Whoever fits the required eligibility may receive benefits.	No correlation between benefits and burden, impacts on macro economy and work incentives. Future generation burden grows especially as population ages. Cannot solve inequity problems under the existing system.
Public Provident Fund	Strong correlation between benefit level and individual burden results in least impact on macro economy and work incentives. Low government financial burden.	Higher fees at initial stage. High responsibility for fund management and may be affected by inflation. In Taiwan, the existing civil servants, military servicemen and laborers' insurance systems ought to be integrated.
Social Insurance System	Appropriate fees. Balances rights and duties. Balance between individual equity and social appropriateness. Integrates all existing systems into one to bring about social equity.	System design tends to be more complicated. Higher administrative cost. Controversies with regard to individual equity and social appropriateness may be aroused.

Source: CEPD, 2000

By 1997, 172 countries had adopted social security programs of one form or another (Social Security Administration, 1997). Of these, 111 countries offer health and fertility allowances; 164 provide vocational injury allowances; 68 have unemployment benefits; 86 provide family allowances; and 166 provide elderly, handicapped and survivor's benefits. These figures indicate a growing emphasis on social protection for the aged, the disabled and survivors within many countries over the past half a century (see Table 7).

Table 7 Numbers of Countries Implementing Social Security Programs, by Type

	1940	1949	1958	1967	1977	1987	1997
Number of countries implementing any one kind of social security program	51	58	80	120	129	141	172
Old age, Disability and Survivor Program	33	44	58	92	114	130	166
Sickness and Maternity	24	36	59	65	72	84	111
Work injury	57	57	77	117	129	136	164
Unemployment	21	22	26	34	38	40	68
Family allowances	7	27	38	62	65	63	86

Source: US Department of Social Security Administration, 1997, *Social Security Programs Throughout the World –1997*, p. XIV.

Theoretically, there are six different types of systems aiming at providing social protection for the elderly, the disabled and the survivors; namely:

(1). Lump-sum benefits with the fees paid by the beneficiaries;

(2). Payment to beneficiaries according to their income bracket;

(3). Means-tested programs funded by taxes;

(4). Universal welfare allowances funded by taxes;

(5). Mandatory private sector pensions systems; and

(6). Mandatory savings systems.

Although different countries may adopt different systems, the social insurance system is by far the most popular. Out of the 166 countries implementing elderly economic security programs, 146 adopted a social insurance program; of these, 121 countries pursued no other protective welfare system. A further 17 countries implemented mandatory public savings systems; where means-tested programs funded by tax, universal welfare subsidies or mandatory private sector pensions systems were applied, other supplementary programs were often added. Only Canada, Denmark and Iceland had implemented a universal welfare pensions system, whilst Australia, France and Switzerland had adopted a mandatory private sector pensions system.

Taiwan has a long-standing record in social insurance care for the elderly, the disabled and survivors, both for those working in the public sector and those protected by the Labor Standards Law. As the system works on a lump-sum basis, which is considered quite a risky method of providing for old-age economic security, the planning committee of the public pensions system has suggested that in future, an 'annuity' basis should be considered as more fiscally sensitive, and should therefore substitute for the 'lump-sum' social insurance system if it is to truly provide for economic security amongst the elderly.

Table 8 Numbers of Countries Adopting Old Age Social Security Systems, by Type

System Type	Contributory		Non-Contributory		Mandatory	Mandatory Savings	
	Flat Rate	Earnings Related	Means Tested	Flat Rate Universal	Private Pensions	Public	Private
No. of Countries	20	140	24	5	4	18	8

Source: US Department of Social Security Administration, 1997, *Social Security Programs Throughout the World –1997*, p. XIV.

Since the full scale implementation of pensions may create higher unemployment – worsening a country's financial condition and international competitiveness – advanced welfare states have recently tried to reform their systems either by cutting back on the payments made, postponing retirement ages or tightening up the eligibility rules. Many of the Latin American countries substituted a mandatory savings personal account for their existing social insurance fund systems; these include Chile (1980), Peru (1993), Argentina (1994), Columbia (1994), Mexico (1992, l997) Uruguay (1996) and Costa Rica (1996). The privatization of pension systems has also received much attention. Moreover, in view of the trend towards globalization, talk of international social security agreements – of which pensions are one component – has also gained considerable attention in recent years.

In short, the KMT government's design of the Taiwanese public pensions system, based upon a 'social insurance' system, was targeted at providing all citizens with basic elderly protection with supplementary pension benefits being worked out for different occupational groups supported by market mechanisms whereby each individual could purchase further protection, as required, from private insurance companies. It was hoped that gradually the country might achieve a so-called three-tier protection system as advocated by the World Bank.

1. The Relationship between Public Pension Systems and other Social Welfare Services

a. Pensions vs. Welfare

Although the public pensions system is not yet off the ground, there are a number of welfare subsidies targeted at different segments of society that are already under way; for instance, living allowances for the elderly of low-income families (NT$3,000 to NT$ 6,000 per month); elderly farmers' welfare subsidies (NT$3,000 per month); veterans' living allowances (NT$14,625 per month); and subsidies for the elderly (NT$3,000 to NT$ 8,000 per month). All of these programs are fully funded by government budgets and, with the exception of the living allowances for the elderly of low-income families, are not means-tested. However, unlike the public pensions system, all of these programs cover living subsidies for the elderly only, and are not designed to meet the needs of the disabled or survivors.

Figure. 2 Three-tier Social Safety Net Proposed by the World Bank

	Goal	Form	Finance	Government Responsibilities
The Third Tier	Voluntary Savings	Individual, Family Saving or Insurance, Occupational Pension Plan	*Full Funding	Tax Incentive Only
The Second Tier	Mandatory Savings	Personal Savings Account or Occupational Pension Plan	*Full Funding *Privatization *Defined Contribution	Minor
The First Tier	Income Redistribution Poverty Eradication	Means-Tested, Universal Old Age Annuities, Employment Related Benefits, Minimum Pension	*Pay-as you-go (tax or social insurance) *Defined Benefit	Major

Source: CEPD, 2000.

In order to integrate all these welfare services programs into one public pensions system, the plan during the transitional period, is that the scope for the coverage of the living allowances for the elderly of low-income families will not be expanded. Once pension benefits are overtaken by the level of existing subsidies, the government budget will take care of the difference. In addition, those farmers who reach 65 years or over by the time that the public pensions system is implemented, may be able to opt whether or not to stay within the present program, whilst those farmers below the age of 65 will be assured of receiving NT$3,000 per month; the plan would be for the government budget to take care of whatever differences existed. As for veterans, since the living allowances they currently receive are regarded as delayed salary, the existing practice will thus continue even after the public pensions system is introduced.

Furthermore, in order to ensure the basic living standard of the insured by the age of 65, the public pensions system sets aside NT$2,000 per person each month as the minimum payment that ought to be guaranteed by the government budget. In order to avoid any overlap in the receipt of government welfare subsides, the handicapped may be required to make a choice between the pension benefits and the disability living allowance; this has proved to be a decision which has aroused extreme dissatisfaction amongst the handicapped.

As indicated above, it is quite clear that the KMT government did try very hard to strike a balance between public pensions (basically a social insurance program) and various other types of living allowance programs (more of a welfare nature).

Table 9 Comparison between Public Pension Systems and Old Age Living Allowances

	Public Pension System	Low-Income Elderly Living Allowances	Elderly Farmers' Welfare Allowances	Elderly Allowances	Veteran's Living Allowances
Nature	Social insurance	Welfare allowances (no fee payable)	Welfare allowances (no fee payable)	Welfare allowances (no fee payable)	No fee payable
Target group	All citizens	Low Income Elderly	Elderly Farmers	Elderly in Certain Counties/Cities	Veterans
Means-tested	None	Yes	None	None	
Coverage	Old Age, Disability and Survivors	Old Age	Old Age	Old Age	

Source: CEPD, 2000.

b. Pensions vs. Health

Taiwan is becoming an aging society, and amongst those aged 65 or over, some 56% are caught up in some type of illness demanding long-term care. One third of those afflicted with illness have a heart or blood disease, and a further ten percent require someone else to take care of them. Those aged 65 or over visit a doctor, on average, five times within a three-month period, whilst five percent of them have experienced the need for residential hospital care lasting for around two weeks on each occasion. To be more exact, 5.43% of the elderly announced that they were unable to take good care of themselves and were badly in need of assistance from someone else to tend to their needs (Bureau of Health, 1999). The issue of long-term care for the elderly has becomes even more acute today, due to the fact that fewer numbers of the elderly are now living with their children, and fewer numbers are receiving economic assistance from their children. In short, the changing composition of the family makes it extremely difficult to continue emphasizing the role of the family in the delivery of welfare services. It is therefore imperative that the government considers this issue when designing the public pensions system.

Financial capability must surely continue to be the paramount concern in designing a long-term care system. Governments throughout the world have adopted five major sources of funding for such systems; namely,

i. Statutory health insurance;

ii. Out-of-pocket payments;

iii. Pension funds;

iv. Social welfare; and

v. Religious/charity organizations

The general trend, however, is for a combination of all of the above. In other words, they may be summarized into the following two types:

i. Statutory long-term care insurance; such as the ones adopted by the Netherlands (1967 - General Law for Exceptional Medical Expenses); Germany (1994 - Social Care Insurance Act); and Japan (1997).

ii. Integration of public pensions and health insurance. France is one example in point.

No matter which type is adopted, there is a general tendency for most countries to stress partial payments, limited coverage and tight eligibility from the demand side whilst also trying to control the supply of long-term care. Furthermore, since long-term care involves not only health care, but also rehabilitation and welfare services, there is therefore an abiding need to coordinate all of these functions. In 1995, home care was blended into the country's universal health insurance program, and by 1997 elderly health expenses in Taiwan constituted a total of 26% of overall medical expenses.

Community long-term care is, however, a comparatively slow-going concept in Taiwan from a social welfare perspective, although some token elderly day-care service provisions, mostly self-financed, have been established. In Taiwan, although institutional long-term care organizations, such as nursing homes, do exist, the coverage is still limited and many are also self-financed.

To summarize, up to this point the public pensions system has not been integrated with long-term care. However, it is crystal clear that in the future a well considered program combining home care payments, partial institutional care payments (which may further be divided into day-care and short-term accommodation) and institutional care payments, such as nursing homes, has to be worked out to respond to the needs of the people.

2. Financial Plan and Tax Structure of the Public Pension System.

a. Fund Raising

It is said that there are normally four different sources from which funding for the public pensions system can be drawn:

i. Under the principle of no tax increases, the government may subsidize 20% of the payments instead of subsidizing 20% of the insurance fees. Other expenses may thus be squeezed, at least in the short term.

ii. Under the principle of no new taxes, the government may issue a five-year bond.

iii. A 20% supplementary business sales tax may be levied, designated specifically for pension use.

iv. A social security tax may be levied from income and business tax, again designated strictly for pension use.

During the 1970s, the average Taiwanese government deficit was 3.8%, and this grew tremendously to an average of 18.9% during the period from 1991 to 1999. In other words, one-fifth of the central government expenditure relies upon public bonds or government borrowing. As a result of this, debt repayments constituted 6.2% of central government expenditure in 1990; reaching as high as 13.9% by 1999. Thus, it does not seem feasible to issue more bonds or allocate budgets for further subsidies of any kind. Theoretically, adding a supplementary levy on personal income tax, payroll tax, and/or business income tax should be a viable way of raising funds for pensions; nevertheless, in view of the fact that there exists a rather narrow tax base, along with the understanding that business income tax increases may cause inflation, plus the relevant concerns over ‘equity’, the government was forced to give up such ideas.

Since stability and comprehensive coverage are the two main guiding principles in financing pensions, and given that the current sales tax in Taiwan is only 5%, much lower than most other countries which have adopted similar types of taxation systems, the planning committee of the public pensions system decided to collect a supplementary 1% sales tax, with banking and insurance businesses being exempted. The reason for the banking and insurance business exemptions is mainly because that they already shoulder a higher tax burden as compared to other countries. A four-year interim period was therefore given to these businesses before they are also incorporated into the tax system. The planning team also suggested that in the future, when the public lottery is officially worked out, a certain proportion of the dividends ought to be allocated to the pensions system. Some calculations made by the Tax Reform Committee (1989) contended that a 1% increase in sales tax (from 5%-6%) would raise the consumer price index (CPI) by 0.67%. CEPD research (1996) suggested that such an increase would lead to a 0.39% increase in the CPI, a 0.008% decrease in the economic growth rate and a rise in the number of unemployed by 700 people. Another simulation conducted by the Bureau of Statistics suggested that the impact of a 1% increase would be fairly small on the macro economy (banking and insurance businesses excluded). It was suggested that it might lead to a one shot increase of 0.44% in the CPI and a 0.01% decline in the economic growth rate; however, pensions allowances have the potential to propel consumption, and this would eventually contribute to the overall economy.

b. Tax Burden

There are three types of tax burden (shares) that have been implemented worldwide; delayed tax, savings incentives and a combination of the two. In short, some countries will tax insurance benefits but not insurance fees and fund dividends, such as Japan (old age annuity), Germany, the UK (old age and dependents’ annuity), Sweden, and so on. There are also countries that will grant additional tax-free insurance fees, fund dividends and insurance benefits, such as Japan (dependents' and handicapped annuity) and the UK (the handicapped annuity).

The planning committee of the public pensions system in Taiwan suggested that the following taxation principles could be adopted:

i. Insurance fees: free of tax.

ii. Insurance fund dividends: free of tax.

iii. Insurance benefits: free of tax.

Table 10 Public Pension Taxation in Advanced Countries

Country	Insurance Fee		Fund Dividends		Pension Benefits			Taxation Model
	The insured	Employer	Taxed	Tax-free	Item	Taxed	Tax-free	
Japan	Deducted fully from total income	Itemized as business expenses; can be deducted from business income.		ˇ	Old-age pension	ˇ		EET
					The survivors' and the disability pension		ˇ	EEE
Germany	Deducted from income limits			ˇ	Total benefit (may be deducted from taxed income)	ˇ		EET
France	Deducted fully from total income		No defined categories		Total Benefits	ˇ		EET
UK	As yet, cannot be deducted from the total income; may be deducted for those who are self-employed			ˇ	Old-age and survivors' benefits	ˇ		EET
					The disability		ˇ	EEE
US	Deducted from income limits			ˇ	Total benefits (may be deducted from taxed income)	ˇ		EET
Sweden	Deducted from income limits			ˇ	Total benefits	ˇ		EET

Note: E = Tax exemption; T = Tax; EET = tax-free for insurance fee and fund dividends, benefits need to be taxed; EEE = tax free for insurance fee, fund dividends and benefits received.

Source: CEPD, 2000.

3. The Impact of the Public Pensions System

a. Impact on Labor Participation

Research findings pertaining to the impact of pensions on labor participation are quite diverse. Some suggest that pensions will lead to a reduction in the labor supply (Zabalza and Paichaud, 1981; Boskin, 1977; Boskin and Hurd, 1978; and Diamond and Hausman, 1984). Others, however, feel that pensions have little or no impact on work incentives (Gordon and Blinder, 1980; Hamermesh, 1984; and Burtless and Moffitt, 1984). Atkinson (1986) pointed out that different methodologies may bring about different results and proposed that the American social security plan had indeed triggered mixed outcomes, such as both early and delayed retirement, and so on. Scholars such as Moffitt (1992) and Fraker (1983) felt that social security payments were responsible for bringing about lower labor participation.

Domestic scholars have argued that with high payment levels, labor participation incentives are reduced for those who have no dependents (Wu; Wong). However, under the current plans, the government is proposing to grant only NT$2,000 per month to those whose insured year is not long enough; whilst for other citizens, the first-year pension payment will be 65% of the average consumption expenses two years prior to the implementation, which is equivalent to 20% to 30% of the average national income; its impact on labor participation should therefore be rather limited.

b. Impact on Savings

As mentioned earlier, there are three major financial pensions systems currently in use throughout the world;

i. Fully funded system or public provident fund;

ii. Pay-as-you-go system; and

iii. Partially funded system.

It is felt that the fully funded system may lead to higher savings since it works on a mandatory savings basis. The pay-as-you-go system, on the other hand, involves generation transfer, and although unclear in terms of the short-term impact on savings, may have a detrimental effect on savings with the aging of the population. A partially funded ‘middle-of-the-road’ system – as advocated by the KMT government – is unclear in terms of its short run impact on savings, depending largely on the size of the available fund, but again, because of the aging population, the outlook for its long-term impact on savings is also pessimistic. Hu's (1998) research indicated that if the pension system was carried out in 2000, the saving's ratio in relation to GDP would decline by –0.59%, and that by 2235, it would further decline by –2.81%.

c. Impact on Investment and Employment

In theory, growing labor costs often lead to lower employment levels. However, in the short term, individual firms may transfer the costs to consumers, or in the longer term, transfer the burden to employees through cutbacks in salaries or wages, thus maintaining the same level of employment. Nevertheless, for those firms unable to transfer the costs either to consumers or employees, their investment incentives would certainly be badly hit. One result would be more firms moving abroad, the other more positive outcome would be the adoption of automation or upgrading of production technology.

Of course, in addition to labor costs, there are many other important factors that would influence investment incentives; namely, social stability, political stability, public policy conducive to investment, market demand for products, capital costs, and so on. Therefore, related measures ought to be taken pertaining to human capital investment, automation promotion, etc., before the public pensions system is implemented. Since the public pensions system has yet to materialize in Taiwan, it is perhaps too early to assess its impacts on investment and employment at the current time.

V. Concluding Remarks
Paradigm Shift: What Model Next?

Social welfare policy development in Taiwan is indirectly related to the process of political development. With the DPP's presidential election victory in March 2000, we are now witnessing shifts in government welfare policy. To be more specific, instead of moving along with the KMT's public pensions plan, the new government is implementing its so-called 'three 3's' program which plans to grant a NT$3,000 monthly living allowance to anyone aged 65 or over; free medical care for children under three years of age; and an interest rate as low as 3% for first-time home buyers. In addition, the 'five 5's' program is also on the way; i.e., increasing by 50%, the number of day-care and kindergarten teachers; increasing by 50%, women's labor participation rates; cutting down by 50%, the number of school dropouts; decreasing by 50%, care burdens undertaken by women; and decreasing by 50%, violent crimes against women.

Because the new government is placing much more attention on women's issues, it is proposed that at least a quarter of the cabinet members ought to be women. In addition, over the next four years, more day-care and long-term care organizations will be established to relieve women's care burdens; equal rights amendments need to be promulgated to ensure equal employment opportunities; and the act pertaining to equal access to education also needs revision. In terms of child welfare, ideas with regard to free education for five-year old children, instead of the present seven-year onwards, and education vouchers of up to NT$10,000 per child per year, are also being considered. Regarding the health insurance program, it is stated that more preventative measures ought to be ingrained into the program, with 'citizenship' rather than 'employee' status being adopted. Decisions extending free medical service for an additional year to residents living in earthquake regions have also been made.

Adding together all of the campaign promises of the newly elected government, it is estimated that the social welfare budget over the next four years will increase significantly. As a result, notwithstanding that these programs may affect the already planned public pensions scheme, there are voices within the government suggesting that tax increases are inevitable, otherwise social welfare expenses will unavoidably create a squeeze on other areas of public expenditure. All of this, of course, may be economically and financially feasible; however, whether or not it is socially viable and politically acceptable has yet to be seen. And it is perhaps exactly in this vein that the experiences of other advanced welfare states', and their consequent reform models, will once again need to be thoroughly scrutinized.

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