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保險「飽」了沒？商業年金保險在我國老年經濟安全  
體系中可扮演的角色與功能

The Function and Commercial Pension Insurance and the  
Elderly Economic Security System in Taiwan

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## 摘要

國人人口結構逐漸老齡化、提早退休、平均餘命延後、長壽風險等多重趨勢下，國人愈重視相關金融理財保險概念以及相關退休規劃等。而國內目前主要勞工保險體系則包含勞工保險、勞保退休金制度、國民年金保險等，而本研究主要欲探討商業保險能否補充勞工保險體系可能給付內容不足地方，以強化台灣勞工老年經濟安全。具體之研究目的包括探討現行台灣勞工相關保險與商業年金保險在制度及內容本質有哪些主要的差異性。其次，分析現行台灣勞工保險體制有哪些可能缺漏。最後，探討商業保險業在因應現行台灣勞工保險體制下之未來發展方向及趨勢為何。在研究方法方面，本研究主要擬針對不同資產層級一般大眾進行實地訪談，搭配文獻資料分析法，結論如下：

- 1、 勞工保險體制未臻完整得加強活絡現行保險運作機制加以解決
- 2、 現行勞保體制下，商業保險成為重要補充性保險，並隨著收入情形有不同層面之考量
- 3、 社會保險制度未來可考量依不同收入階層發展相關配套措施
- 4、 勞退新制修法草案中的勞工自選平台應有相關配套做法
- 5、 聯合政府、企業、及民間法人力量等共同推動民眾投入退休生活規劃之完整性

**關鍵字：**勞工保險、勞保退休金、國民年金保險、商業保險

## Abstract

Facing multiple trends of gradually aging population structure, early retirement, the average life delayed, and longevity risk, more people pay attention to the concept of insurance and related financial plan related to retirement planning. There are labor insurance, labor pension, the national pension insurance, as well as national health insurance that provide social protection for occupation injuries/diseases, old age, health care needs, to name a few. But current social protection may be inadequate to guard against all kinds of life risks. Therefore this study is to investigate the general public perception and expectations toward the current social insurance system. The main objectives of the thesis are as follows:

1. What is the difference between domestic labor insurance and commercial insurance?
2. Analyze the deficiencies of the labor insurance, labor pension, national pension insurance.
3. How does the commercial insurance address the deficiencies of the domestic labor insurance system?
4. Explore the future development or the trend of commercial insurance under the current labor insurance system?

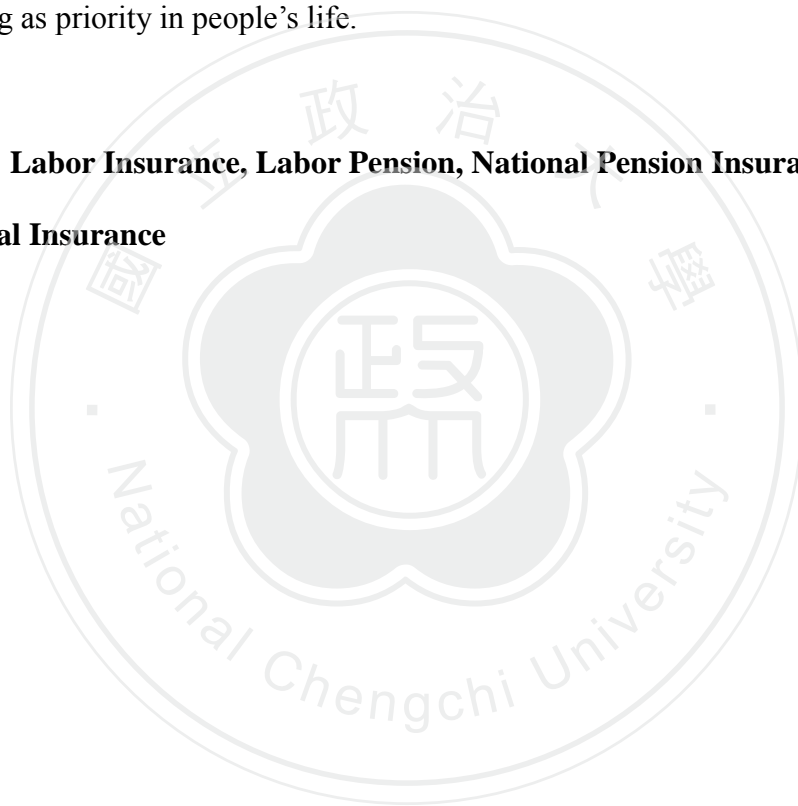
The study takes in-depth interviews with the general public of different assets levels. Literature reviews are conducted to explore the proper role that the commercial insurance can play and function given the domestic labor insurance system. Conclusions are as follows:

1. The labor insurance system was not complete and needs to further strengthen and activate the current insurance operation mechanism
2. The commercial insurance has become an important supplementary insurance

under the current labor system, and its function differs to people with different levels of income.

3. The social insurance could be reconsidered according to different income groups to develop schemes to meet their needs.
4. Labor pension scheme offers voluntary options that need more policy attention and support..
5. The collaboration of government, business, and foundations to make retirement planning as priority in people's life.

**Keywords: Labor Insurance, Labor Pension, National Pension Insurance, Commercial Insurance**



## Table of Contents

摘要.....	II
Abstract.....	III
Table of Contents .....	V
Figures.....	VI
Tables.....	VI
<b>Chapter 1 Introduction.....</b>	<b>1</b>
1.1 Background and Motive.....	1
1.2 Objectives .....	12
1.3 Chapter Arrangement .....	13
<b>Chapter 2 Literature Review .....</b>	<b>15</b>
2.1 Labor Insurance and Labor Pension Systems .....	15
2.2 National Pension System .....	24
2.3 Commercial Insurance .....	33
2.4 Summary .....	39
<b>Chapter 3 Research Methodology .....</b>	<b>41</b>
3.1 Structure of the Research .....	41
3.2 Research Method .....	42
3.3 Scope of the Study .....	44
3.4 Basic Information of Respondents.....	45
3.5 Design of Survey Questions.....	46
<b>Chapter 4 Research Findings and Analysis .....</b>	<b>48</b>
4.1 Discussion of the Current Status of Taiwan's Labor Insurance System .....	48
4.2 Exploring commercial annuities insurance under the labor insurance system .....	62
4.3 Summary .....	71
<b>Chapter 5 Conclusions and Recommendations.....</b>	<b>74</b>
5.1 Conclusions.....	74
5.2 Future Recommendations .....	85
<b>References .....</b>	<b>86</b>
Chinese.....	86
English .....	89
Internet .....	90

## Figures

Figure 1 Schematic Diagram of Taiwan's Multi-level Security Insurance System for the Aging Economy .....	8
Figure 2 Research Steps and Procedures .....	14
Figure 3 Types of Insurance – Social Insurance and Commercial Insurance .....	33
Figure 4 Conceptual Map of Insurance .....	34
Figure 5 Research Structure of the Study .....	41
Figure 6 Structure of Interest Rate Sensitivity Policies .....	81

## Tables

Table 1 Development of Social Insurance .....	16
Table 2 Comparison of Pension Systems around the World .....	28
Table 3 Comparison of National Pension and Labor Pension .....	30
Table 4 Basic Information of the Respondents .....	45

# Chapter 1 Introduction

The study explores how the role and function of commercial insurance can be maximized in Taiwan's labor insurance, labor pension, and national pension systems. Because the general public is unable to be totally dependent on the country's current labor insurance and labor pension, the coverage from the national pension system is inadequate in meeting retirement needs. Consequently, related commercial products have been introduced into the market to fill this gap. According to the statistics on life insurance from Life Insurance Association of the Republic of China, the premium payments for life insurance policies from January to March 2014 reached 651,783 (in NT\$ million), increasing by 12.1% from 581,477 (in NT\$ million) last year. From this latest information, we can see that the trend leans towards high demand for commercial insurance. The following is a description of the background and motivation of the study as well as its purposes and arrangement of chapters.

## 1.1 Background and Motive

As today's demographic structure begins aging; many people opt for early retirement, the average lifespan lengthens, and there are more risks to long life, Taiwan's citizens have started prioritizing relevant financial planning and insurance concepts as well as retirement planning. Based on statistical data provided by Ministry of the Interior, the dependency ratio between dependents (0 -14 years old and over 65 years old) and working population (15 – 64 years old) is 34.7%. The dependency ratio for the elderly is 15.0% and steadily growing. In addition, from 1993, when society began aging, the percentage people over 65 years of age account for is constantly going up; it reached 11.2% by the end of 2012. Lin Mao Chang (2012) pointed out that, according to the population demographic model, it was in 1974 that Taiwan diagram looked very much like a pyramid. By 2050, old people will

be a social majority; the figure for people over 65 is likely to be 38% of the total population, according to the Council for Economic Planning and Development, which is why elderly-related economic burdens will be much heavier. Moreover, according to the Directorate General of Budget, Accounting, and Statistics of the Executive Yuan, the average retirement age in 2012 is 57.3, later than 2.5 years compared to the data published seven years ago. FINLEA survey information indicates that many people plan to retire by 61, four years later than the current average retirement age, hence the trends of aging, late retirement age, and active retirement. According to the data from Ministry of the Interior, the average lifespan of both genders in Taiwan is 79.51; 76.43 years for men and 82.82 years for women. Basically, people have more than 20 years of retirement life to look forward to; how to prepare for retirement early enough becomes a major issue.

As for Taiwan's major national policy for retirement planning, aside from the regular labor pension system, there is also labor insurance and national pension. The development of labor insurance, the Bureau of Labor Insurance of the Ministry of Labor pointed out that when Taiwan started implementation of labor insurances in 1950, the coverage included injury, disability, maternity, death, old age, and five forms of retirement payments, as well as various payments paid out on term based on actual needs.

The labor insurance system went through several amendments including starting hospitalization benefits in July 1956, adding the "unemployment benefits" to the Labor Insurance Act in 1968, and adding the ordinary illness subsidy in the third amendment to the Labor Insurance Act in 1979. As a result, the benefits were then renamed into seven types of maternity, injury, medical treatment, disability, unemployment, old age, and death. In 1988, a fourth amendment was made to add medical care benefits. In July 1, 1998, in answer to the needs of an aging society and



to protect the employment security of senior citizens, the government asked senior citizens who had already collected pension but started working again to enroll themselves voluntarily in occupational hazard insurance. To ensure the employment security of older people, the government started unemployment benefits from labor insurance on January 1, 1999. The recent years have seen amendments to parts of the Labor Insurance Act enacted by the Legislative Yuan in 2008. Furthermore, after the labor insurance pension was implemented in 2009, aside from the “incapacity benefits” which were renamed “disability benefits,” more ways to get monthly pension for disability, old age, and death were added in the form of pension, disability pension, and survivor pension<sup>1</sup>.

Labor insurance is to provide security for all employed workers. If the labor insurance premium were maintained at its present rates and the number of people receiving pension payments would form an inverted trapezoid signifying a cumulative rise, the fact that revenues are not enough will be a real challenge. Furthermore, labor insurance has had its share of financial crises, including large pensions paid out since the launch of labor insurance in 1950. Large payments were also made in 2006; labor insurance fund shrank from NT\$400 billion to less than NT\$200 billion within the year. The situation only eased up after amendments were made to the regulations. In recent years, the news that the labor insurance fund is once more at the brink of bankruptcy has incited public unease and panic, causing a serious bank run (Huang, 2010). This signifies that relevant labor insurance system is a volatile factor that causes unrest among the general public.

In addition, the formal enactment of the national pension insurance in 2008 is one of the major social insurance policies of Taiwan in recent years. Its main targets

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<sup>1</sup> Source: Introduction of labor insurance—Bureau of Labor Insurance, Ministry of Labor  
<http://www.bli.gov.tw/default.aspx>

are people from 25 – 65, belonging to a registered household and are not enrolled in labor insurance, agricultural insurance, civil service insurance, and military insurance. The National Pension primarily includes senior citizen pension, disability pension, survivor pension, and two forms of one-time payment: maternity and funeral payments. Because many people do not fully understand the pension system, especially the national pension, the majority of the citizenry takes a resistant attitude and refuses to pay the premium.

In addition, there was a complaint from a person whose relative passed away before becoming age-qualified (over 65). Therefore, he was not able to get any funeral payment, which is the root of the dispute behind after paying over NT\$40,000 of national pension premium and being not able to benefit from it. Furthermore, funeral payments are restricted to the death of the insured and the survivor annuities is only paid to a non-working spouse with at least 55 years of age, or children below 25 years of age and have no earning capacity. Consequently, family members who do not qualify within the abovementioned scope are unable to collect the relevant amount.

In addition, Dai Chao-yang, Hsieh Pang-chang, Yang Ya-huei, and Chou Lin-yi et al (2010) conducted a survey analysis on the reasons behind the non-payment of national pension premiums and found that the primary reasons include non-understanding of the national pension system, not knowing if eligible for national pension, and poor family economic situation. The Financial Supervisory Commission (FSC) has expressed that, because the various economic security issues of the elderly arising from an aging society, mainly including deteriorating physical conditions, expected increase in medical expenses, and nursing care expenses due to accidents or illnesses, the general public usually use various forms of pension insurance and long-term care insurance to fill the gap. Among these, pension insurance can fill the gap created by inadequate pension payments (i.e. labor pension, national pension,

etc.). By purchasing pension insurance at a young age and deferring pension payments during the accumulation period, people are able to receive annual pension payments up to the end of their lives, allowing them to have better quality of life during retirement.

According to the Minimum Standards for Social Security (Convention no. 102), passed by the International Labor Organization (ILO) in 1952, it states that for medical, sickness, unemployment, old age, maternity, and survivor's benefits, the State may instate insurance policies to ensure a social safety net where the elderly is cared for, the sick treated, occupational injuries compensated, the unemployed subsidized, and mothers cared for. In addition, Chapter 11 of the Convention states that the standards for payment of those who enroll in old-age annuity of social insurance cannot be less than 40% of the income replacement rate. The balance should come from insurance pension and pre-retirement savings so pre-retirement financial planning is important.

Moreover, in 2005, the World Bank presented the five-pillar concept, which is mainly a concept for a multi-level pension system. At the same time, in terms of targets, aside from workers of formally declared units in 1994, the security of Lifetime Poor and the informal sectors were added. The five pillars are as follows: Zero Pillar refers to national subsidy or social pension, which is mainly to provide the security of minimum living standards for all old people; the First Pillar, which is the "compulsory" social insurance system, with premiums from social insurance being the main financial source, it is financed on a pay-as-you-go basis. Its most important feature is to be able to transfer income for providing minimum living standards for the elderly through the redistribution function of joint social liability; the Second Pillar is the "arbitrariness" of the employee pension system, which may include occupational pension or personal pension plans. Its main feature is the escrow handling operations

of a defined contribution system; the Third Pillar is a personal commercial insurance savings system that is entirely “voluntary. Whether it is occupational pension system or personal pension plans, the system is a voluntary defined benefit or defined contribution system, the goal of which is to guarantee a clear retirement goal; and the Fourth Pillar, which is the moral family support system. This level of security provides care for non-working members of the family in their twilight years. This considers that the financial source of some retirees may be their offspring, home ownership, family transfer, or personal savings. This shows that the international community does have a set of regulations for elderly retirement security. Personal pension insurance has become a major part of every nation’s pension system; it has also resulted in the rapid development of pension insurance.

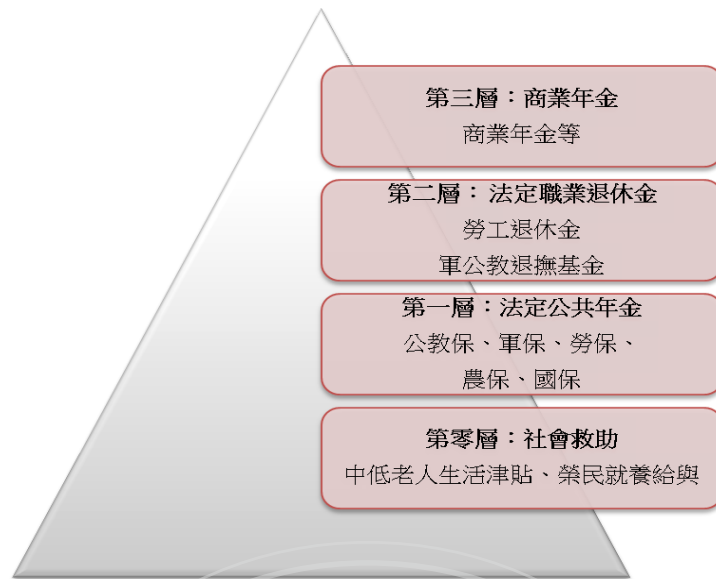
Professor Fu Tsung-hsi from National Taiwan University’s Department of Social Works pointed out that in the Three Pillar system presented by the World Bank in 1994, the defined Second Pillar contribution system of private business is considered the core, complemented by the taxes of the First Pillar and the private pension of the Third Pillar. In addition, the Five Pillars presented by the World Bank are as follows:

1. non-contributory pension that provides a minimal level of protection;
2. First level is contributory pension which provides related payments;
3. Second level is mandatory individual savings account;
4. Third level is voluntary retirement program;
- and 5. Fourth level is the informal intra-family or intergenerational resources.

In summary, the major development trends within countries around the world in recent years are as follows:

1. Building multi-level pension: common trend among nations
2. Encourage the development of private pension: common trend among nations
3. Cutting back of all relevant pension: common trend among nations
4. Reinforce prevention of risk of poverty: England, Germany, and South Korea

Furthermore, Cheng Wei-hsiang (2008) pointed out that during the 18<sup>th</sup> century when the Industrial Revolution started in Western countries, labor problems hand in hand with economic transformation. Solutions including labors helping themselves by forming various organizational groups or becoming united to fight with employers, government enacting laws or drafting policies for intervention gradually became the methods for solving various forms of labor problems. It wasn't until 1919 that the first international labor organization was established; the International Labor Organization (ILO) is the international organization within the United Nations tasked with handling labor issues. The preamble of the ILO Charter and Universal Declaration of Human Rights exhorts the international community to provide comprehensive protection for the elderly and to study long-term considerations. Focusing on protection of the aged and social security, Conventions No. 102 and 128 also pointed out that the foundations of social insurance are built on the insurance premiums of employee and employer; countries may or may not intervene. However, the regular basic protection is based on the country's tax revenues, which should be provided to the citizenry. This is the major international interpretation of labor issues. As for relevant domestic developments, the economic security guarantee system for the elderly presented by the Steering Committee for Pension System Reform of the Executive Yuan (2012) studied multi-level pyramidal structure developed internationally, in which the zero level is social assistance, the first level is public pension, the second level is statutory occupational pension, and the third level is commercial pension, as shown in Figure 1.



**Figure 1 Schematic Diagram of Taiwan's Multi-level Security Insurance System for the Aging Economy**

Source: Steering Committee for Pension System Reform of the Executive Yuan (2012), compiled by the study

In addition, Wang Li-rong, Hseuh Cheng-tai, Hsin Pin-long, Wu Chyun Yen (2013) and Lin Shi Chyun (2013) pointed out that since 1993, the International Labor Organization (ILO) has been working on a variety of issues concerning the elderly and social protection, mainly emphasizing on the alleviation of poverty and provision of low-risk pension. Each nation needs to develop a multi-level support system for the elderly and maintain a flexible structure. Moreover, by utilizing diverse financing sources, the entire system can achieve decentralization of fiscal risk, ensuring long-term stable results. The four levels of the structure for elderly economic security presented by the ILO are as follows:

1. The major function of the first level is to alleviate poverty; the government is more deeply involved and the major financial source is taxes. The goal is achieving minimum living standards.

2. The second level is mandatory occupational pension, which is the support system of mandatory public management; income replacement rate is between 40% and 50%; financial system is pay-as-you-go. The goal is redistribution and using the coinsurance.
3. The third level is the mandatory personal account system, which is mainly to supplement the two above-mentioned forms of protection. It is considered a mandatory occupational pension plan, with hopes of ensuring compulsory savings and coinsurance.
4. The fourth level is a voluntary personal account system, which is primarily a personal savings plan using a voluntary pension savings or non-pension plan. This encourages an individual to achieve his saving goals; its function is to provide extra economic security for the elderly.

Furthermore, Article 35 of the Labor Pension Code states that business units employing more than 200 people should enroll employees who have expressed written willingness to enroll in pension insurance in a pension insurance program that is in line with the provisions of the Insurance Act, with the union's consent or agreement through arbitration for those with no unions. For the foresaid workers who select annuity insurance, the employer shall not follow Paragraph 1 of Article 6 to contribute the labor pension for them. The central competent authority should prescribe the first annuity payments, approval, and other compliance regulations. Business units adopting the provisions of the preceding item should submit this for approval of the central competent authority. The average yield of the first annuity should not be lower than the standards of Article 23. In response to this, the Ministry of Labor once proposed that labors choose investment plans on their own and formed a retirement investment plan ad hoc group. Under the new pension system, workers

may voluntarily pay about 6% of their monthly salaries to their pension account, the amount of which is tax deductible. So far, there are more than 330,000 workers in this voluntary contribution program, with an average contribution rate of 5.3%. At the same time, some workers choose to invest in mutual funds. The Ministry of Labor is considering using self-selected investment schemes to guide workers into saving for retirement earlier. In the self-selected investment program, workers can choose the guaranteed or non-guaranteed products offered by reputable financial institutions, including local and international mutual funds, trust products, and insurance policies. The government will also draft a criteria for financial institutions qualified to become involved in the investment platform, including capital limitations, financial solvency, risk control mechanism, asset management professionals and experience as well as record of major irregularity; only reputable financial institutions will be allowed to participate. Currently, the initial plan of the Council of Labor Affairs is to partly open up the employee voluntary pension contribution system. However, one of the major directions for the enactment of laws will be whether companies with more than 200 employees will be allowed to directly go to the platform and carry out retirement pension planning. As Fu Tsung-hsi et al (2012) expressed, aside from the workers' negative response toward voluntary contribution, compared to their Western counterparts, Taiwanese companies still have a long way to go in planning pension system on their own. For example, pension reform in Germany had the government offer tax breaks for corporate pension. If the employer pays the premium for corporate pension, then payments are not counted as taxable income; the company can enjoy unlimited tax breaks. If the employees pay from their salaries, they get a monthly tax break of 220 Euros. Currently, under the new pension system, aside from the personal account system, pension insurance is also mandatory; this has the implications of private pension. The crux behind why it is not executable is in that the guaranteed



income is shoulder by the insurance companies, affecting their willingness to participate. In addition, this system dictates that companies with more than 200 employees may enroll them in pension insurance products in keeping with the Insurance Act, with the consent from the unions. In this type of pension insurance, the employer serves as the policyholder, who deducts at least 6% of the employee's salary monthly as contribution. The major considerations for government are how to assist SMEs in establishing a similar corporate pension system and how to establish the relevant tax breaks and incentives for companies who set up their own pension plan to build a strong and healthy corporate pension culture in Taiwan.

In summary, because of the inadequacies of the labor insurance, labor pension, and national insurance systems and due to unfamiliarity with relevant systems, the general public is usually insecure and distrustful of the country's policies or social welfare systems. A 2012 labor insurance report indicating that the fund may be facing bankruptcy incited panic and led to a run in both labor insurance and labor pension. This resulted in workers withdrawing hundreds of billions of NT dollars in a matter of months (ET Today, 2012; Hsu Dong-hsiung, 2013). Consequently, the study focuses on public awareness and expectations regarding the current social insurance system in Taiwan as well as how commercial insurance is able to fill in the gaps, in the hopes of providing reference cases to relevant government agencies and business owners.

## 1.2 Objectives

The inadequate coverage of the labor insurance, labor pension, and national pension insurance has prompted the existence of commercial insurance. In this situation, does commercial insurance play a supporting or competitive role? What should it cover? What does the future of commercial or related insurance look like? The study not only tackles these issues, but it also focuses on understanding in-depth of the ideas and opinions of the general public about social and commercial insurance and in-depth of their perception of the difference between the two insurances, in terms of the security of the aging economy. The objectives of this study are as follows:

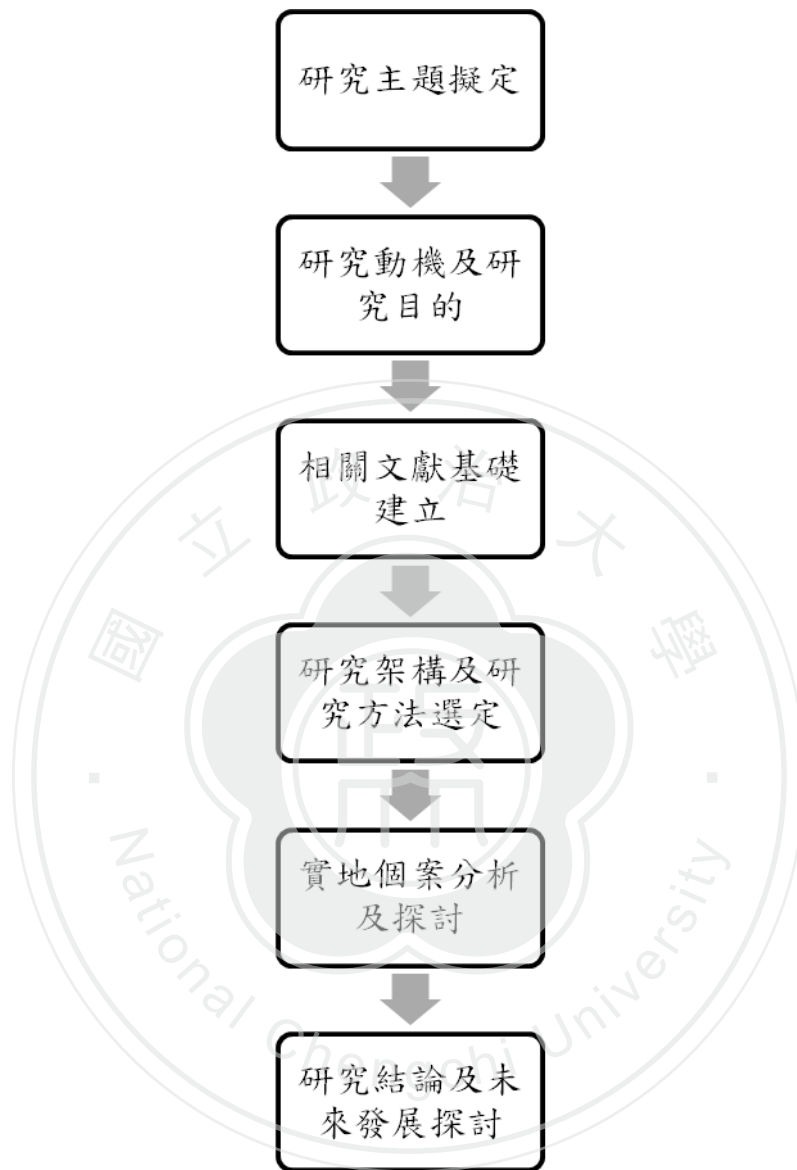
1. To study the difference between domestic labor insurance and commercial insurance.
2. To analyze the inadequacies of the domestic labor insurance system.
3. To study how commercial insurance address the inadequacies of the domestic labor insurance system.
4. To explore future developments or trends for commercial insurance under the current labor insurance system.

### 1.3 Chapter Arrangement

The study is divided into five chapters, with the following major points included and discussed in each:

1. **Chapter 1:** This chapter covers the research background and motive, its objectives, and the arrangement of chapters.
2. **Chapter 2:** This chapter covers review of related literature. It primarily collates related information on the operations of Taiwan's labor and commercial insurance to serve as the theoretical basis for this study.
3. **Chapter 3:** This chapter covers research methodology. It primarily provides a more detailed explanation of the establishment of the research structure, the selection of the research methodology, designation of scope and limitations, as well as the design of the questionnaire.
4. **Chapter 4:** This chapter covers research results and analysis. It primarily focuses on the interviews conducted by the study on selected respondents to understand the ideas and opinions of the general public regarding Taiwan's current labor insurance, as well as its needs and expectations with regards to commercial insurance.
5. **Chapter 5:** This chapter covers the conclusion and recommendations. It primarily discusses how the review of related literature and case analysis results could serve as reference for future studies related to social insurance and industry operations, or subsequent relevant research.

In addition, the steps and procedures of the research are shown in Figure 2.



**Figure 2      Research Steps and Procedures**

## **Chapter 2 Literature Review**

Technological advances in recent years have brought changing trends such as improvement in the quality of life and an aging society, and people are paying more attention to insurance related financial planning and retirement planning. Frequent news of financial loss such as the recent debt crisis in Europe and the US, financial market upheavals, and massive financial loss in the domestic labor insurance and labor pension have resulted in public feeling of unease and distrust toward national policies, and severe bank run on labor insurance and labor pension funds. Therefore, this study aimed to explore how the commercial insurance industry and products can supplement public needs as they cannot completely rely on labor insurance, or on labor pension and national pension insurance system for a satisfactory level of financial stability after retirement. Hence, in this chapter, the literature review will focus on labor insurance, labor pension, the national pension insurance (national insurance) and commercial insurance policies to provide a theoretical foundation for this study.

### **2.1 Labor Insurance and Labor Pension Systems**

Risk among the elderly is more predictable than for the general public. If accidental death does not occur, then each employee will enter the phase of old age. Due to the frailty of aging, most labors are unable to competently fulfill their original job responsibilities, and therefore unable to rely on employment for their basic living. Therefore, pension from a labor insurance system is a protection against the risk of aging. In particular, it enables retired workers to maintain their original living standard or plan for a basic standard of living. The core value of the system is the mutually beneficial function of premium payments from wages or contracts to ensure financial security of retired workers.

Huang, Chi-Ying (2008) defines labor insurance as mandatory life insurance formulated by the government as an implementation of social policies. To ensure the financial security of labors, the government targets labors and assembles individuals most likely to encounter the same risks, and establishes a common interest group. Using coercive measures and insurance technology, when the insured incurs injury or loss as a result of an accident, the damage is dispersed throughout the entire establishment to compensate the injured and his family. The insured is obligated to pay premiums in order to enjoy the right to compensation, and the purpose is to ensure that workers have a basic income safety net. "

In Taiwan, in addition to labor insurance, other major social insurances include labor insurance, civil service insurance, farmer's insurance and national health insurance, as listed in Table 1.

**Table 1 Development of Social Insurance**

Time	Insurance category	Target
1950~ 2009	Labor insurance	The labor insurance was started in 1950, and related Articles were recently amended on July 17, 2008 after the third reading, and enacted on January 1, 2009. Payments include maternity, injury and illness, disability, old age and death. Claims for disability, old age and death benefits also include an additional monthly pension, namely the Old-Age Pension, Disability Pension, and Survivor Pension. (Source: Bureau of Labor Insurance, Ministry of Labor)
1958	Civil service insurance	<ol style="list-style-type: none"> <li>1. Authorized full-time employees.</li> <li>2. Full-time public school teachers.</li> <li>3. Full-time teachers in authorized private schools</li> </ol>

Time	Insurance category	Target
		registered as judicial person in accordance with the Private School Act and approved by competent educational authorities.
1985	Farmers' health insurance	<b>In addition to members defined by Article 12 of the Farmer's Association Act, agricultural workers aged 15 or above are eligible for the insurance.</b>
1995	National health insurance	The most widely applicable, with six categories of insured and their dependents.
2008	National pension insurance	Primarily for citizens aged 25 or more and less than 65, and who have no labor, farmer, civil service or military insurances.

Source: Bureau of Labor Insurance, Ministry of Labor

(<http://www.bli.gov.tw/sub.aspx?a=q58UpWBe19E%3D>) , as summarized in this study.

The Bureau of Labor Insurance, Ministry of Labor (2011) pointed out that in 1950, Taiwan's labor insurance began to be carried out on the basis of the single Article, Taiwan Labor Insurance Program, and other enforcement rules. Through amendments over the years and the third reading at the Legislative Yuan on July 17, 2008, the Executive Yuan finally order the enactment of the Labor Pension Program on January 1, 2009. The original labor insurance included payments such as maternity, injury and illness, disability, old age and death, but after the Labor Pension was implemented, Handicap Benefits was renamed Disability Benefits, and disability, old age and death benefits also include an additional monthly pension, namely the Old Age Pension, Disability Pension, and Survivor Pension. Among these benefits, the old-age benefit is divided into three items: (1) Old-age annuity; (2) Old-age pension

fixed- sum payment, and (3) Old-age pension lump sum payment. An one-time application was only available to those who were insured and qualified for benefits prior to December 31, 2008, and those who are insured after the implementation of the Labor Pension Program in January 1, 2009 are not permitted to choose a lump sum payment. (Source: Bureau of Labor Insurance, Ministry of Labor)

In summary, the main purpose of "labor insurance" is to protect workers from losses in the event of all kinds of accidents. Generally, most countries prioritize labor insurance because labors make up the largest population in industrial countries, and labor issues are relatively complex, resulting in complex and severe influences. As such, countries usually rely on labor insurance to resolve many labor related issues.

In her study, Huang, Chi-Ying (2008) noted that because labor insurance is a form of social insurance, it differs from general insurance, and are characterized by the following features:

1. Mandatory Principle: All labors above the age of 15 and below the age of 65 must be insured by the Labor Insurance through their employee, affiliation or organization.
2. Societal Principle: Social is a type of government assistance to ensure the livelihood security of the social majority through means such as social policy and confining social dangers. Labor insurance is a way for a nation to implement social security policies. Without social security as the highest principle, labor insurance loses its fundamental value. In addition, its associated social responsibility of providing assistance is primarily fulfilled through helping others and re-distributing income to ensure livelihood security.
3. Legal principles: Labor insurance comprises specific policy objectives. To fulfill the constitutional rights of the people, all matters pertaining to the rights and obligations of the people should be clearly defined and legally prescribed,



including the effective dates of the insurance, its interruption, termination, coverage and compensation. Even for authorized supplementary underwriting, the authorization should be specific and apparent to the insured. The enforcing agency must comply with the legislative intent and perimeters of the parent law. Details and technical issues are regulated by enforcement rules, and the content must not contravene the parent law or add non-existent limitation to the people's right to freedom.

As shown below, labor pension payment is calculated according to individual circumstances. Those who were insured prior to the end of 2008 can select payment method that is most appropriate for them. (Source: Bureau of Labor insurance, Ministry of Labor)

**1. Old-age Pension Annuity: Based on the following two preferences:**

- (1) Average monthly insured salary  $\times$  number of years  $\times 0.775\%$  + NT\$3,000.
- (2) Average monthly insured salary  $\times$  number of years  $\times 1.55\%$ .

The average monthly insured salary is calculated based on a maximum 60-month average of salary during the insurance period; or for those who have been insured for less than 1 year, calculated based on the actual number of months insured; or for those insured less than 30 days, calculated based on 1 month.

**2. Old-age pension fixed- sum disbursement (only those who were insured prior to December 31, 2008 are eligible for this disbursement method):**

Disbursement amount = Average monthly insured salary  $\times$  number of disbursement months

The average monthly insured salary is calculated based on a maximum 60-month average of salary during the insurance period; for those who have been insured for less than 5 years, calculated based on the actual number of months of average salary;

for every insured year, one month of average monthly insured salary is disbursed; for those insured less than 1 year, calculated based on actual number of insured months; for those insured less than 30 days, calculated based on 1 month; or for those insured after age 60, calculated up to a maximum of 5 years.

### **3. Old-age pension lump sum disbursement :**

Disbursement amount = Average monthly insured salary × number of disbursement months

The average monthly insured salary is calculated based on actual average insured salary for the 3-year insurance period prior to insurance cancellation. For those who have been insured for less than 3 years, it is calculated based on the actual number of months of average salary during the insured period. For every insured year, one month of average monthly insured salary is disbursed; for those insured for more than 15 years, two months of average insured salary is disbursed per excess year, with a maximum of 45 months. For those still employed after age 60, the number of insured years is calculated to a maximum of 5 years, and combined with the pension from before age 60 into the lump sum payment, totaling a maximum of 50 months. In addition, those insured less than 1 year are calculated based on actual number of insured months, and for those insured less than 30 days, calculated based on one month.

In addition to the labor insurance, the labor pension is also an old-age pension social system (referred to as labor pension). Basically, the pension system disbursement is different, and can be divided into defined benefit plan and defined contribution plan. However, defined contribution plan from individual accounts has gradually become the main pension trend in global development. The development of Taiwan's labor pension system over the last few years can be divided into the old pension system and new pension system, as described below.

1. Old pension system: The main problems in this pension system are: (1) In Article 57, calculation for the number of years of works is based on the principle of the same industry or company, leading to frequent dispute when combining the actual total number of years worked; (2) Theoretically, employees must remain with the same employer for at least 15 years to be eligible for pension from the employer, thereby seriously affecting job change decisions, and hence a covert threat to worker's rights; (3) Resignation from a job means the loss of pension years, and new pension years must be recalculated, thereby threatening financial security during old-age. In Taiwan, job change is a frequent occurrence, but our pension law is based on Japan's "lifetime employment" pension system, and therefore inconsistent with Taiwan's reality. Moreover, the lifespan of small and medium enterprises are typically shorter, and employees are threatened with job loss as a result of business collapse due to employer mismanagement or intentional collapse to avoid paying for costly employee pension, or severance; and (4) Employers contribute the required minimum 2% into employee pension reserve fund, resulting in slow growth of the fund. Consequently, the law was amended to formulate the new pension system.
2. New labor pension system: After many years of discussions, Taiwan passed the Labor Pension Act in June 2004 after three readings. This Act is a special provision for labor pension, and therefore has priority application in the Labor Standards Acts. Funding for the new labor pension system comes from: monthly employer contribution to the pension (minimum contribution is 6% of labor monthly wage), voluntary employee contribution (within 6% of monthly wage), return from pension fund, late fines and other income. Mandatory employer contributions and voluntary employee contributions are accumulated into the

personal accounts of employees, and are not affected by job change, position loss or business closing.

The new pension system operates primarily through the Individual Retirement Account, and supplemented by Annuity Insurance. In the Individual Retirement Account, employers are required to contribute an amount no less than 6% of the employee's monthly wage toward the pension of workers defined by the Labor Standards Act (including nationals, foreign spouses, and spouses from China, Hong Kong and Macao), and deposit that amount into employee personal accounts established by the Bureau of Labor Insurance. As account holders, employees have full right to this special account, and can withdraw their pension without being impacted by job change, position loss or business closing. Employees may also voluntarily contribute up to 6% of their monthly wage to their pension fund, and this contribution is fully deductible from personal income tax. Workers may withdraw their pension upon reaching age 60. Those who have contributed to the pension fund for more than 15 years are to apply for monthly pension disbursement, and those who have contributed for less than 15 years are to apply for lump sum disbursement.

In addition, the employer is the signatory for the pension insurance contract, the employee is the beneficiary, the coverage is limited to the insured, and the insurance company for the annuity insurance must be approved by the central competent authority. Payment method is determined by the terms of insurance policy of the insuring company. Moreover, employer contribution for the annuity insurance must not be less than 6% of the employee monthly wage.

However, the new pension system has resulted in subsequent problems. For example, Guo, Ming-Cheng (2006) pointed out that Individual Retirement Accounts lacks a risk-sharing function, and lacks the mechanism for adjusting pay criteria according to consumer or salary index, and thus unable to fulfill the function of social

security. In addition, as a state-owned monopoly, it can invest in or withdraw from any stock market or engage in any form of investments, and may result in the government controlling the overall economy of the country, unless changes are made to the management of pension funds. Furthermore, the new pension system is seriously interfering with the property of labors and employers.

Regardless of the lump-sum disbursement of the old system or disbursement by installment of the new system, the greatest controversy in the nation's labor pension system is that while the amount receivable by the worker is fixed by mandatory employer contribution and employee voluntary contribution, the inconsistency is that for those who opts for disbursement by installment, funds remaining in their personal accounts are not adjusted according to the impact of economic development or inflation. As a result, it is difficult to ensure the livelihood of retirees, and challenges the financial security of old age.

Furthermore, frequent turmoil in the global financial environment in recent years has a significant impact on labor insurance or labor pension fund. Citing data from the Council of Labor Affairs (CLA), ETtoday (2012) pointed out that deficit in the labor insurance fund balance will occur in 2017, which is earlier than expected the 2020. This means that beginning in 2018, the labor insurance fund will be siphoning off its capital, and a bankruptcy threat is foreseen for 2027, which is ahead of the expected 2031. Therefore, the majority of the public needs other forms of commercial insurance planning and preparation in addition to labor insurance, labor pension and national pension insurance, especially in terms of financial resources for retirement living or nursing care. In particular, a rapidly aging population and potential subsequent problems of financial security during old age are the major reasons for involving commercial insurance.

## 2.2 National Pension System

National Pension Insurance is a kind of social insurance or social security. In accordance with the research of Qi-Ying Huang (2008), the primary social security system could be traced back to 1601 when the Elizabeth Poor Law was representative national assistance and social insurance established by labors was based on mutual aid. National assistance, a rescue system for the poor is the responsibility of a nation or local public group granted by the Constitution. The so-called social insurance mainly unites majority social members who might encounter identical risks and who organize a self-rescue system of a danger community. Through the power of groups or nations, it forms a social solidarity for common danger members and provides group members with basic life protection by adopting the payment of “insurance principles” and the equality principle of consideration payment, and income-and-payment balance principle.

Pertaining to the legislation background of Taiwan’s National Pension Insurance, as the proportion of senior citizens over 65 years of age reached 7% in September, 1993, implying that Taiwan stepped into an aging society as claimed by World Health Organization of United Nations (WHO). It is estimated that in 2026, the population of senior citizens will account for 20% of total population, and the aging speed is faster than other European and American countries. In addition, according to statistics conducted by Department of Statistics, Ministry of the Interior, the average residual life of senior citizens over 65 years of age has been increasing, and economic security is people’s primary concern for their senior life. Moreover, as the rapid development of urbanization and modernization in Taiwan, the number of nuclear families has increased, and the traditional functions of family support for the elderly have gradually declined, the proportion of children supporting the elderly has decreased

year by year, and commodity prices on the market continue to soar, providing senior citizens with economic security has become non-negligible in Taiwan's social security system. However, due to diverse economic security systems for senior citizens in Taiwan, the security content of each system had to be reviewed, and there was still certain unfairness among systems. More importantly, quite a few citizens could not be included in the economic security systems for the elderly, so there was still a serious gap in the systems. Therefore, in light of this, related units have established a pension system to change the lump sum payment of social insurance for senior citizens and to include other citizens who have not enjoyed economic security for the elderly. Meanwhile, Taiwan's government has integrated various allowances for senior citizens to terminate the chaotic situation of allowances so that National Pension Act has thus been legislated.

In addition, the insured have to be above 25 and under 65 years of age, and have registered household in Taiwan. They have not been granted with payment from civil service and teacher insurance, military insurance, and labor insurance. Executive Yuan further illustrated that the year of labor insurance has to be 15 years before a labor can receive pension, so Taiwan's government has referred to the transition period in other countries to request labors who have received pension before the implementation of National Pension Act and those who receive labor pension 15 years after the implementation of the act to participate in National Pension Insurance. Besides, although current farmers insurance is one of Taiwan's occupational insurance, it does not provide old age payment, and its related security is not as complete as National Pension Insurance. Therefore, the insured of farmers insurance have become the insured of National Pension Insurance. Moreover, to avoid repeated allocation of resources and repeated subsidies from the government, farmers who have to participate in National Pension Insurance should cancel their farmers insurance.

The main payment of National Pension Insurance includes insurance accidents such as old age, disability and death which are provided with old age pension, disability pension, funeral payment and survivor pension. The amount of payment is based on the total amount of money one has paid for the insurance on the month an insurance accident happens. The first year is based on basic salary, and the standard of payment is adjusted based on Consumer Price Index (CPI). Old age pension can be applied for when the insured are 65 years of age. The amount of payment is calculated with the following two methods, and the better method for the insured will be selected. The insured are able to receive the pension monthly until they pass away. 1. Monthly insurance amount  $\times$  year of insurance  $\times 0.65\% + 3,000$ ; 2. Monthly insurance amount  $\times$  year of insurance  $\times 1.3\%$ .

Besides, to prevent the insured over 38 years of age from obtaining too low pension amount even though they pay for the insurance each month, the aforementioned first method can serve as a supplement. In addition, to connect the program of old age allowances, National Pension Act provides those who are 65 years of age or older and who do not enjoy other social payment with NTD3,000 guaranteed pension, so farmers with Welfare Pension for Senior Farmers can receive National Pension instead when they are 65 years old.

In discussing the comparison of National Pension System, Ming-Rui Xie (2004) indicated that many countries implemented National Pension System in the world, and that it could be regarded as one part of the social welfare system. Among social security and social welfare systems promoted by European and American countries, social insurance is an important policy for promoting the social welfare system. The implementation method of the system can be divided into Bismarck Model and Beveridge Model. The former values the spirit of social insurance, and it is compulsory. In addition, labors are the main insured, and the social welfare system of



Germany adopts Bismarck Model. The latter emphasizes universal welfare, and its social insurance stresses uniform rate and payment. Among which, uniform rate implies that labors and self-employed workers pay the same amount of insurance fees, and uniform payment refers to that each insured person enjoys identical payment. However, dependent population such as children and women can enjoy supplementary payment from their government. The system in England adopts Beveridge Model.

In addition to Bismarck Model and Beveridge Model, there is another model called Swedish Model which emphasizes universal social security system. The model is composed of a social security system, active labor market policy, and large public service departments. As the social security system has been the core of Sweden, and before 1990, the promotion of the model was extremely successful in the country, it is called Swedish Model. However, until the end of the 1990s, due to the World War and economic crisis, Swedish Government revised it and proposed a new pension policy which is called statutory pension payment. The payment method of the system can be divided into three levels: the first level is basic pension, the second one is a legal and compulsory system related to salary, and the third one is additional pension from enterprises provided in accordance with labor and employer agreements. The content of different pension systems is as shown on Table 2.

**Table 2 Comparison of Pension Systems around the World**

Nation	Germany	England	Sweden
Pension model	Bismarck Model	Beveridge Model	Swedish Model
Implementation period	1889	1908	1913
Features	Compulsory Mainly for labors	First level is universal Second level is optional	Universal Compulsory
First level	Old age pension includes 1. Employee 2. Self-employed worker 3. Those who take care of children under three years of age 4. Those who receive social payment (the unemployed insured); labors who voluntarily involve in nursing.	Public pension (Basic National Pension)	Basic pension
Second level		Public pension; enterprise pension	Legal, compulsory and related to salary
Third level		Individual pension (Private commercial insurance)	Additional pension from enterprises provided by labor and employer agreements
Other illustrations	This was a compulsory social insurance system established by Germany in the 1880s for labors. Meanwhile, it was a public social welfare system that determined the amount of payment, but it was not governed by the country. The feature of the system is that labors could avoid the risks of birth, old age, sickness, death and disability. With regard to their income loss, it was based on a labor's original income, but not his demand for lifetime insurance which was determined by the level and value provided by labor service. Labor unions and capital representatives could manage the funds in accordance with laws.	Beveridge Model was a universal model, and its social insurance stressed uniform rate which implies that all labors (shared by employers and governments) and self-employed workers paid for the same amount of insurance fee. In addition, the model emphasized uniform payment (dependent population such as children and women was provided with supplementary payment). However, the result of the model showed weak redistribution, and it provided universal payment that could only maintain basic livelihood. In addition, it had to be supplemented by social assistance, private payment or personal savings.	Since 1976, Sweden had begun to implement its partial pension system which stipulated that pension receivers should be between 60 and 65 years of age, their working hours should be five hours less each week to work at least 17 hours per week. In addition, receivers should work at least ten years since they were 45 years old. In 1994, the earliest pension receiving age has been changed to 61 years of age, and receivers enjoy 10 hours of compensation hours at most.

Sources: Yun-Wen Gu (1996), Hui-Fen Lin (2003), Ming-Rui Xie (2004) et al.

Generally speaking, the national pension systems implemented in other countries after the 1990s have been changed on the basis of economic conditions, and related rates or insurance fees have been gradually adjusted. The chief reform and development trend of national pension systems in the world is as follows:

1. To elevate the payment receiving age or the payment years for receiving the entire amount of pension payment.
2. To change payment calculation formulas and reduce the amount of pension payment.
3. To elevate the minimum qualification period for receiving pension.
4. To adjust the amount of pension payment in accordance with commodity prices instead of the increase of salary.
5. To increase the residential years of the insured.
6. To stipulate payment amount with income or property investigation.

The comparison of related insurance rates, burden proportion, payment items, related pension of the aforementioned Labor Insurance Pension and National Pension is as shown on Table 3.

**Table 3 Comparison of National Pension and Labor Pension**

<b>Item</b>	<b>National Pension</b>	<b>Labor Insurance Pension</b>
<b>Insurance rate</b>	6.5% to 12%. When the insurance starts, it is 6.5%, and 0.5% of insurance rate is added every two years until it reaches 12%.	7.5% to 13%. The insurance rate is 7.5% for the first two years, and 0.5% of insurance rate is added every year from the third year until it reaches 10%. Then 0.5% of insurance rate is added every two years until it reaches 13%.
<b>Burden proportion for insurance fees</b>	The insured: 60% Government: 40%	1. Employed labor: Employer: 70% , labor: 20% ; government: 10% 2. Occupational worker: Labor: 60% ; government: 40%
<b>Payment items</b>	Disability pension Old age pension Survivor pension Funeral allowance	1. Ordinary accident: Birth, injury and sickness, disability (pension and lump sum pension), old age (pension and lump sum pension) and death (pension and lump sum pension). 2. Occupational injury: Injury and sickness, disability (pension and lump sum pension), death (pension and lump sum pension) and medical payment for occupational injury.
<b>Payment conditions</b>	1. Disability pension: Seriously disabled without working ability after being assessed. 2. Old age pension: 65 years of age or over. 3. Survivor pension: (1)Death during insurance period. (2)Death during the period of receiving disability and old age pension.	1. Disability pension: Those who do not have working ability for lifetime after being assessed. 2. Old age pension: 60 years of age with at least 15 years of labor insurance. 3. Survivor pension: (1)Death during insurance period. (2)Death during the period of receiving disability and old age pension. (3)Those who have at least 15 years of labor insurance and who are qualified for old age payment, but pass away before receiving the payment.
<b>Options</b>	None	1. Those who had labor insurance prior to the implementation of National Pension, when the insured or their relatives can apply for disability payment, old age payment or survivor payment, they have to choose

Item	National Pension	Labor Insurance Pension
		<p>between lump sum payment or pension payment.</p> <p>2. Those who had labor insurance prior to the implementation of National Pension, and those who pass away during the period of receiving disability or old age pension, their relatives can choose the difference of the lump sum disability or old age pension in which received pension has been deducted.</p>
<b>Deferred pension</b>	None. Those who are 65 years of age can start receiving the pension.	Deferred pension: Those who are qualified for receiving labor insurance pension can receive an additional 4% of pension for each year being deferred. 20% additional pension at most.
<b>Decreasing pension</b>	None	Decreasing pension: If those who are qualified for receiving labor insurance pension apply for receiving it one year earlier, 4% of pension will be reduced. 20% of pension can be deducted at most.

Source: Direct Selling Labor Union of Occupation—Taichung City

(<http://www.tccg-direct.glob.tw/topics.aspx?id=169>)

To sum up, Taiwan had social insurance such as labor insurance, military insurance, civil service and teacher insurance, and farmers insurance for workers, but approximately over three million citizens above 25 and under 65 years of age could not participate in any social insurance. Therefore, National Pension Insurance System, a social insurance system, has been designed to bring social security and insurance to each one of Taiwan's citizens. Besides, payment age for labor insurance pension has been gradually adjusted to 65 years, so if a labor retires at the age of 60, he still has to wait anxiously for another five years without any income. Although "decreasing pension" is available for labors to choose from so that they do not live without any income, some labors do not choose the option. Therefore, to general labors, it is one

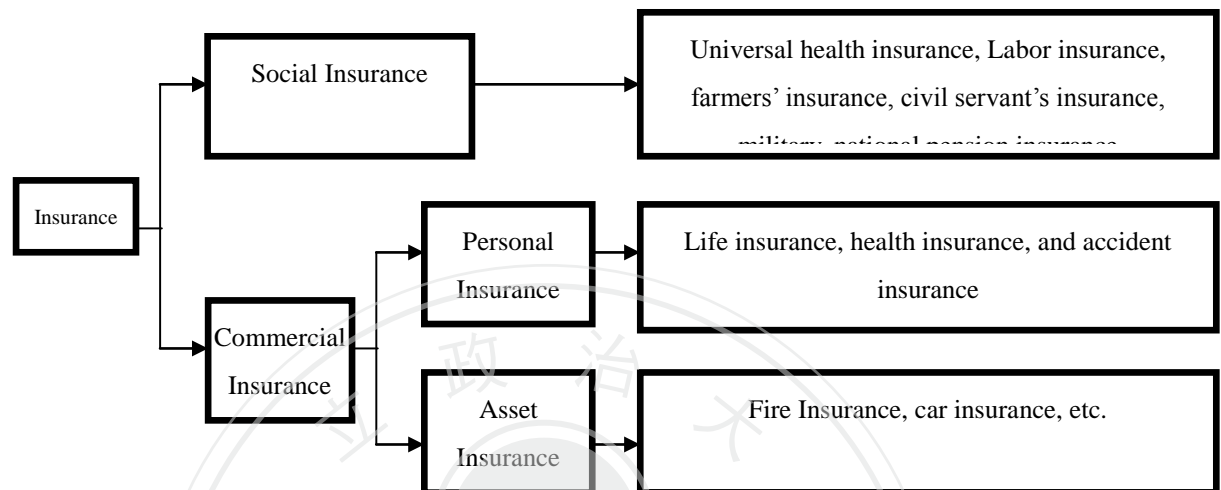
of their concerns regarding economic security during old age as they are not sure if they can still work and if they are healthy after they are 60 years old.

Related issues regarding National Pension Insurance lie in the insured who are chiefly housewives, farmers, and citizens who do not work. Therefore, National Pension Insurance has turned into disadvantaged insurance, which is difficult for us to expect its income redistribution function due to the financial abilities of the insured. Moreover, as it is difficult to collect insurance fees, its benefits will be restricted, and it further influences the willingness and confidence of the insured to participate in the insurance. Therefore, it might not be feasible for the insurance to be compulsory. If Taiwan's government wants to maintain the normal operation of the system, a great investment from Taiwan's national treasury is required to maintain its financial operation. However, national public power might get involved to lead to one-way payment in Taiwan's social insurance system, which might weaken reciprocity and social solidarity, and which might make the spirit of mutual aid among members disappear.

Therefore, people in general tend to turn to other commercial insurance to plan and save "money" for old age, and they even attempt to save additional retirement pension to supplement the insufficiency of expenses for old age. Commercial insurance will be discussed in the following section.

## 2.3 Commercial Insurance

In terms of types of insurance, they can basically be divided into social insurance and commercial insurance, with the categorization shown in Figure 3.



**Figure 3 Types of Insurance – Social Insurance and Commercial Insurance**

Source: Related literature collated by the study

There are differences in commercial insurance and social insurances in terms of content. If commercial insurance and social assistance are at both extremes, then social insurance can be considered the spectrum in between them (Bodenheimer & Grumbach, 1992), as shown in Fig. 4. Commercial insurance emphasizes the relevance between the amount of the premium and the size of the payment coverage, and the level of the risk dictates the amount of the premium, while the guiding spirit of social assistance is not being able to stand seeing someone suffer. Hence the strength of the community is used to aid and assist the weak through taxation. There is really no relationship between payment and paying out, so to speak. Social insurance lies somewhere in the middle; its principle is that users of this service pay their own way. However, it abandons the risk calculation portion of premium payments. In addition, voluntary mutual aid society is used to reflect the concept of “helping

oneself, extra help will be from others. Aside from being mandatory, the term “social” also forms an important facet of social insurance. Users of this service pay their way while being required to do so at the same time, which is a major feature of social insurance. Consequently, it is the middle ground situated between commercial insurance and social assistance.

	商業保險	社會保險	社會救助
參與	志願		強制
給付條件	繳交保費		行政規定
收費的使用	專款專用		統籌統支
費率	精算		不對等
財務來源	繳費		一般稅收
管理	市場		政府

**Figure 4 Conceptual Map of Insurance**

Source: Yang Ching-li (2000)

Commercial insurance is divided into two major categories: personal insurance and asset insurance, with the descriptions as follows:

1. Personal insurance: primarily underwrites personal risks such as death, disability and disease, as well as old-age benefits.
2. Asset insurances: primarily underwrites non-personal risks such as buildings, cars, and other assets.

In terms of the status of the commercial insurance market, CTW Securities (2010) once pointed out that the Asia-Pacific market is the largest insurance market in the world, with last year’s premium totaling US\$358 billion, accounting for 15.4% of the total global premium payments. It surmised that the reasons are due to the strong and rapid economic growth in the region, higher rate of savings, and urbanization. This is



also why insurance companies see better performance in the sales figures for accident and medical, retirement and old-age pension products. Taiwan is the region's fourth largest and the world tenth largest market for commercial insurance; in 2009, premium payments totaled US\$52.2 billion. From 2004 to 2009, life insurance premiums grew by 9.4% compounded annually. Moreover, market penetration rate is 13.8%, with average individual premium amounting to US\$2,250. This shows that Taiwan is an extremely developed market for commercial insurance products; at the same time, it also indicates that Taiwan's citizens have a lot of demands in that area.

Lin Wan-yi (2013) pointed out that usually the ratio between payment received after retirement and the person's income before retirement, which is called income replacement rate may serve as indicator to measure the adequacy of post retirement economic sources. Often, pension insurance will have a corresponding income related payment, primarily because annuity insurance is a form of quality of life guarantee in retirement or old age. If one is highly paid during his or her time in the workplace, and pays high insurance premiums, the person will receive more money after retirement or at old age. In addition, annuity insurance payment can be seen as a form of periodic salary concept. The employee puts aside a part of his salary as premium and gets it back in increments after retirement. Of course, this includes risk distribution and investment benefits. Liao Tsen-wei (2006) pointed out that income replacement rate is the ratio of money received after retirement accounts to money received before retirement in the form of salary. This indicator is used to measure whether the individual will be able to maintain pre-retirement living standards after leaving the workplace. Often income replacement rate will differ according to professions; changes can also be due to difference in pre-retirement salary standards. The Examination Yuan pointed out that higher income replacement rate indicates that living standards during retirement are higher. Usually because retirees do not have the

need to save up for things or support their offspring, they are able to maintain the quality of life they had before retirement. The income replacement rate of regular households in Europe and the US is between 60% and 70%. If, for example, pre-retirement monthly salary was NT\$100,000, monthly pension can amount to about NT\$70,000, enabling the person to maintain living standards he had while working. Currently, combining labor insurance old age benefits and labor pension, the income replacement rate of Taiwan's citizens is 45%.

Cheng Wei-min et al (2011) pointed out that several factors affect retirement finances, including “personal and system risks” and “risk affecting retirement asset value.” The former describes the risks faced by retirees in accumulating retirement funds as well as after retirement. The latter looks at the risks affecting the pension. Risks affecting retirement asset value mainly includes health and long life, inflation, investment, gender, marital status and number of offspring, pre-retirement income, and other unpredictable risks. Among these, inflation is what primarily affects the actual purchasing power of the currency. For retirees, some of their expenditures are higher than those for non-retirees, such as medical care expenditures. In addition, investment risks may be divided into systemic and non-systemic. The former includes factors affected by political, economic, and social environments, which cannot be eliminated by spreading the investment. The latter refers to the risks involving the corporate investment target, such as operations and management, financial problems, etc.; spreading out the investment may help reduce these risks. Consequently, systemic risks in retirement are more severely impacted by the overall economy. Moreover, for those with high monthly salary, the degree of financial adequacy is higher. Post-retirement income can be derived from (1) statutory pension, (2) savings, and (3) other income (such as those from interest, rental fees, or given by offspring). Other unpredictable risks include divorce, death of spouse, or medical expenses,

which account for the biggest part of the expenditure, especially medical care for the spouse or for long-term care. These expenditures may greatly reduce the amount of post-retirement monies the either one's spouse is able to spend. Furthermore, in the study conducted by Reno & Lavery (2007), post-retirement adequacy standards should be based on the actual amount of expenditure. If the pre-retirement income has already reached the basic expenditure required by society at the time, the basic needs after retirement should exceed pre-retirement income standards. In other words, for low-income or poor workers, income replacement rate after retirement should reach more than 100%.

Comparing relevant international demands on old age security ad income replacement rate, we can see that Taiwan has a long way to go. In addition, using the concept presented by Chen Jie-chi, General Manager for Taiwan of International SOS, average insurance coverage rate in Taiwan is more than 200%; this means that each person has at least two policies. This indicates that the general public in Taiwan is very concerned about enhancement of living standards as well as planning financially for retirement and medical care. Many satisfy these needs by purchasing relevant commercial insurance; its supplementary function and the customers' additional expectations are what make it attractive.

What is even more enticing about commercial insurance is its guarantee of economic security in old age as well as helping in financial planning and tax avoidance. In terms of economic security, products include savings policies, annuity policies, and investment policies. Customers can purchase commercial insurance products that offer interest rates higher than bank rates for long-term or short-term investments. Consequently insurance policies also serve as major tools most people use to force themselves to save. Moreover, Insurance Today (2013) pointed out the tax avoidance function of insurance policies. For example, annual deductions, as well as

inheritance tax exemptions for designated beneficiaries of personal death insurance, all these inextricably link insurance and tax savings. In addition, for example, investment insurance policies provide investment fund platforms and tax avoidance function. For policies, which came to effect after July 2010, when death benefits fall within the scope of ratio designated for the policy account value, they are exempted from inheritance taxation. Furthermore, the special feature of life insurance combined with investment and financial planning makes it why insurance companies consider this type of product very important and saleable.



## 2.4 Summary

In this chapter of the review of related literature, the study primarily looks at the current labor insurance, labor pension, national pension, and commercial insurance. From the information gathered, it can be seen that the aforementioned labor insurance, labor pension, and national pension belongs to a major part of the country's social insurance. As mentioned before, social insurance brings together many social groups with the same potential risks and forms a social solidarity, usually by government, between these individuals through which basic living security is offered and provided. Although users are expected to pay their own way, the regular risk calculations are foregone. In other words, social insurance adopts a "helping oneself, helping others" stance, with the main goal of providing the most basic protection for the general public. In addition, because social insurance operations are non-profit in nature and partly takes on the function of social assistance, relevant funds may face potential losses due to overall economic fluctuations, which cause anxiety and unrest on the part of the insured. Moreover, because social insurance is a part of the national policy system, overall operations may also be affected by limitations set by relevant laws and regulations. It cannot be as flexible as commercial insurance or develop more competitive coverage.

Correspondingly, the major goal of commercial insurance is make a profit. This is why companies are able to develop products for customer groups from different demographics or for develop long-term, mid-term and short-term pension, savings, or investment policies for groups with different risk categories. Overall, commercial insurance companies are primarily supplements social insurance in terms of old-age economic security or medical care. It only addresses the inadequacies of social insurance and is not able to replace it. Moreover, by complementing each other, social

and commercial insurance ensures that different groups of people can choose the best policies for themselves after considering income, relevant risk categories, and knowledge of the insurance concept.

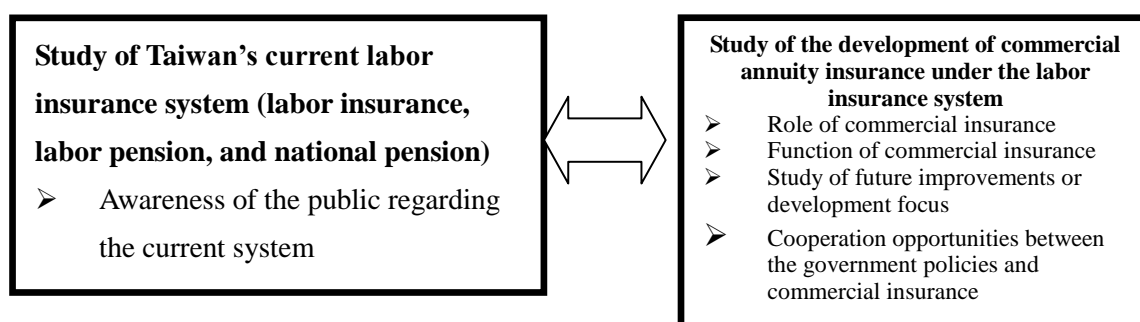


## Chapter 3 Research Methodology

The review of related literature of the study explored and discussed the various insurance systems including labor insurance, labor pension, national pension, and commercial insurance. This chapter focuses on the structure, methodology design, scope, and possible limitations as well as questionnaire design.

### 3.1 Structure of the Research

The structure of the research is primarily according to the understanding and expectations as discussed in the review of related literature included in Taiwan's labor insurance system such as labor insurance, labor pension, and national pension systems. Moreover, it also studies the role played by commercial insurance, functional design, and future developments. Through this, the study hopes to explore and analyze how the general public feels about the labor insurance system and its worries about the old age security aspects of the system as well as the way to properly use commercial annuity insurance plans to make up for labor insurance-related inadequacies. Furthermore, how will government policies carry out management and risk control of forced public pension payoff? In addition, under the principles of stability and security, the feasibility of these insurance systems being able to work with commercial insurance companies to shift the risk, allowing for safe growth of the public's pension fund is what this study will explore. Figure 5 shows the relevant research structure.



**Figure 5 Research Structure of the Study**

### **3.2 Research Method**

With regards research methodology design, Pan Shu Man (2004) et al pointed out that research can primarily be divided into qualitative and quantitative. Qualitative research emphasizes a dynamic process, the implementation of the study and action in a social context, to understand its implications through in depth exploration. Consequently, qualitative research explores the reality behind various social phenomena. To build a body of evidence through various forms of interaction in daily life, the researcher needs to look into the value and beliefs hidden in those phenomena during the research process. This is the basic tenet of qualitative research.

In addition, Babbie (2013) pointed out that qualitative and quantitative research methods have both pros and cons as well as limitations. Generally, quantitative research is based on large amount of data using statistical methods and variable control to verify the hypothesis presented by the researcher. The strength of this research method is that research conclusions have strong generalizations. However, it is very difficult to translate complex social phenomena into measurable indicators and establish the causal relationship between the variables. In comparison, in qualitative research, the researcher usually do field work, conduct interviews, and use the observational method to collate and gather information. This makes it possible for the researcher to interpret the finer aspects of social context including process, roles of the players, and other subjective interpretations, which provide a wealth of information and insight. Because qualitative research is usually linked to various social conditions, there are usually very little generalizations. Its strength lies in the attention given to historical context, process, and players, making it easier for the researcher to stay on top of social changes and distinguish the systems that bring



about social change (such as studying the causal mechanisms that come into play when behavioral changes occur after the government ratified the Convention on Human Rights). Both research methods have their own attributes, but they are not exclusive; one is not better than the other. Consequently, aside from the researcher's interests, professional knowledge, as well as the accessibility of resources and information, the choice of research methodology is due to the research topic; it is deemed the most appropriate method to obtain the required data.

The study primarily makes use of the personal interview method of qualitative research, focusing on respondents from different economic sectors of society. These respondents included business owners or members of the high-income group, middle-income group like civil servants or salaried middle class, and members of the low-income group. The study looks into how these interview subjects perceive and understand labor insurance, labor pension, national pension, as well as their expectations. It also interviews the respondents on their reasons for investing in commercial insurance and what they think should be improved in it. In addition, the study also carries out analysis of related literature to reinforce the comprehensiveness and objectivity of relevant content, in hopes of providing relevant government agencies and industry members with important reference points.

### **3.3 Scope of the Study**

The study primarily focuses on members of the general public, including people from various sectors of society and their understanding of various aspects of the country's labor insurance system, such as labor insurance, labor pension, and national pension. It places emphasis on the issue of economic security in old age and how the public makes use of commercial insurance and other products to make up for the inadequacies in terms of coverage.

Because the researcher belongs to the financial planning and insurance sector, respondents were chosen based on their familiarity with the researcher or their willingness to be interviewed. The study chose its interview subjects according to differences in income (i.e. business owner, doctor, middle class, blue collar, or retiree); interviews were conducted face-to-face. The respondents' answers were then analyzed based on the review of related literature. However, due to lack of time and shortage of funds, not all sectors were properly represented and interviewed, making it difficult for the interviews to serve as an objective inferential basis.

### 3.4 Basic Information of Respondents

The interview subjects that the study focuses on primarily includes a business owner, dentist, senior high school teacher, engineer, car maintenance center mechanic (blue collar), and retiree (from a corporate). These respondents were asked questions regarding their understanding of the current labor insurance system as well as the functions of relevant commercial insurance and other issues. Table 4 shows the basic information of the respondents.

**Table 4 Basic Information of the Respondents**

Item	Target Interviewee	Respondent	Income bracket	Time and place of interview
1	Business owner (owner of steel company)	Mr. Liu	< 2.35 million	July 2014/ Taipei
2	Dentist	Dr. Chen	< 2.35 million	July 2014/ Taipei
3	Senior high school teacher	Mr. Chen	520,000 – 1.17 million	June 2014/ Taipei
4	R&D software engineer of listed company	Engineer Yen	520,000 – 1.17 million	June 2014/ Taipei
5	Car maintenance center mechanic (blue collar)	Mr. Wu	> 520, 000	July 2014/ Taipei
6	Retiree (formerly employed at a corporation)	Miss Chang	520,000 – 1.17 million	August 2014/ Taipei

Source: Compiled by the study

### 3.5 Design of Survey Questions

To be able to provide reference points for relevant industry members or government agencies, this study primarily focuses on people from sectors of society, conducting open-ended interviews regarding their understanding of labor insurance, labor pension, national pension, and commercial insurance as well as future developments of these insurance systems. Relevant interview questions are shown below.

#### A. Basic information of the respondents

1. What is your current job?
2. What is your current annual net income bracket? (in accordance with the tax bracket)  
☐ <520,000; ☐ 520,000 ~1.17 million; ☐ 1.18~2.35 million; ☐ > 2.35 million

#### B. Study of labor insurance and labor pension

1. What do you know about the scope of labor insurance coverage including maternity, injury and illnesses, disability, old-age pension, and survivor's annuity?
2. Old-age pension payments can be divided into old-age pension benefits, old-age lump sum payment, and one-time old age benefits. Do you know, more or less, what they cover? Do you feel that they are enough to meet the needs of the old-age economy?
3. What do you think the major differences between the old and new pension labor pension systems are? Do you think that the current pension system is adequate to meet the needs of the future old age economy?
4. What do you think the inadequacies of the current labor insurances and labor pension systems (especially in the coverage for old-age pension) are? In your opinion, how can they be improved or further developed? ?

#### C. Study of national pension system

1. Have you paid national pension? How much do you know about whom this type of pension covers?
2. Do you understand the old-age pension aspect of the national pension system?

Have you ever calculated approximately how much money you can receive monthly after retirement?

3. What do you think the deficiencies of the current national pension system are (especially in terms of payment for old-age pension) and what are the aspects that would need to be improved or further developed?

#### **D. Study of Commercial insurance**

1. Have you ever bought commercial annuity insurance? What were your primary considerations at that time (For example, was it due to feeling that the current labor insurance system or others are inadequate to meet the financial security needs in old age)?
2. What do you think the biggest difference between commercial annuity insurance and labor insurance, labor pension or national pension is? (In terms of premium payment, scope of coverage, etc.)
3. In your opinion, what aspects of commercial insurance would need to be improved or further developed? (Especially the ones
4. concerning economic security for old age)

## Chapter 4 Research Findings and Analysis

The content of this chapter concerns the interview results of topics such as the current operating status of related labor insurance systems in Taiwan and the role and function of commercial annuity insurance and the summary of the related secondary literature and information to organize and analyze the research findings.

### 4.1 Discussion of the Current Status of Taiwan's Labor Insurance System

This research is primarily aimed at conducting field interviews of people from different class backgrounds and summarizing key points regarding knowledge of related social labor insurance systems such as Labor Insurance, Labor Pension and National Pension Insurance and other related topics. The related interview content and analysis contents are summarized as follows:

#### 1. Discussion of the Current Status of the Labor Insurance and Labor Pension Systems

Labor Insurance and Labor Pension can be called the most important labor insurance policy for the pension funds of ordinary domestic workers. Interviews were conducted with people from different class backgrounds for this research to discuss public knowledge and recommendations for related labor pensions and old-age benefits.

With regard to labor pensions, the majority of the interviewees had some basic knowledge about the scope and content of the benefit payments. For example, China Steel executive Mr. Liu, Dr. Chen and Teacher Chen said the following:

*Labor Pension is social insurance system that the government provides for ordinary workers with payment functions for injury and disability pensions, old-age pensions and survivor pensions under respective conditions. The major difference with the old labor pension plan is the pension fund contributed by companies for deposit into a dedicated labor*

*pension account is at least 6% based on the salary amount each month.*

Currently retired Ms. Zhang mentioned:

*The average person probably knows about labor pension benefits. I transferred to a different department when I was working. The benefits were different based on the amount of salary that was negotiated. For me, I considered it a form of basic security. Besides pensions, I also would check if there was group insurance (especially medical and accident). If there was more complete overall security, it could make up for what commercial insurance did not cover.*

Additionally, Mr. Liu said this about old-age benefits:

*In the past, the old-age benefits for Labor Insurance could only be collected in one lump sum payment. But due to frequent cases of elderly persons getting swindled out of their pensions in recent years and in order to provide an additional choice for workers, this was added as a pension payment method so workers could choose to receive their pension in one lump sum or in monthly payments when they retire. Still, there isn't much difference in the amount of money that is received.*

Dr. Chen remarked:

*The advantage of the Old Age Pension is certain risks can be avoided with monthly payments. This may be somewhat beneficial to ordinary people but it may not be enough to rely on as a single source of funds for retirement. It mainly depends on your individual lifestyle.*

Engineer Yan made this comment:

*I am not too clear about the actual difference between the one lump sum old-age pension payment or one-time old-age benefit collection but I estimate that I might have trouble covering my living expenses if I only received ten or twenty thousand a month after I retire. So I have also invested in some commercial insurance and stocks to compensate for the shortfall.*

Mr. Wu who works for a car company said:

*Since monthly insurance payments are made for Labor Insurance, besides protecting against injury and sickness at work, it is the most important source of economic and financial support when one retires in the future. It is a very important social security system.*

With regard to labor pension issues, the labor insurance and old labor pension systems have been operating for many years now. People from different class backgrounds have a general understanding of the basic concepts. The difference is their individual needs. For example, ordinary middle class or office workers may want to have group insurance (commercial insurance portion) to protect against accident risks which may occur. As for old-age benefits, doctors and business owners may be able to rely on their own funds. As for the auto worker, the worker may depend more on the pension.

With regard to his knowledge about the difference between the old and new labor pension systems, Mr. Liu, a business owner, stated:

*The old system was like an insured worker who has worked at the same organization for a period of 25 years and the payment method is a lump sum payment and the new system is a monthly payment system after retirement. As for the differences between the old and new systems, I believe the new system is a little bit better for workers. At least pension concepts have been added so that a single bad decision of a retired worker will not cause the person to become a burden on overall society. Dr. Chen mentioned that the old-age benefits for Labor Insurance were changed from a lump sum payment to monthly payments on January 2009. Persons who reach the age of 60 who have worked for 15 years can collect old-age pension benefits and company is obligated to contribute 6% to the employee's dedicated account. This offers more security but it should just be considered basic social security.*

Teacher Chen added:

*The main functions of the new system is tax saving and expand coverage. The tax saving function is workers may voluntarily contribute to their pension funds and these funds may be deducted from one's total income. In addition, the people covered under the new system include fixed period contract workers and part-time workers. Under the new system, pensions can be collected at the age of 60 so it is better overall.*

Engineer Yan mainly pointed out:



*The new system changed the old-age benefits from a lump sum to monthly payments. The difference is the money can be deposited each month in the employee's dedicated account so there is less to worry about when switching jobs. One also doesn't have to worry about your pension funds not being there.*

Last, Mr. Liu made this recommendation concerning the Labor Insurance and Labor Pension Systems:

*It should not have much of an impact on me at present. But with regard to the overall environment, the population is aging rapidly so more or more people will be collecting old-age benefits which will lead to financial imbalances. There is also the problem of low replacement rate of current worker pensions which may cause some people to feel that their pensions are insufficient so improvements should be made.*

Dr. Chen made this comment:

*It may satisfy the need for basic security but it is not quite enough in general. If the insured salary is 40,000 dollars and over 10,000 dollars is received after retirement based on how many years were worked, one would have to be quite frugal to make ends meet. Commercial insurance can be considered to provide more complete security or somewhat better interest rates would be more enticing. Also, the actuary system can be strengthened to avoid labor insurance fund disputes and other problems which could cause panic among the general public.*

Teacher Chen and Engineer Yan mainly said:

*We hope the government can provide more specific guarantees. There are also risks such as falling interest rates and inflation which could cause benefits to lose purchasing power. Maybe future policies can take commercial insurance practices into account to flexibly reinforce the system.*

Mr. Wu also stated:

*The greatest fear for labor insurance today is the system could go bankrupt just like the rumors circulating about the government's Labor Insurance Fund. Feeling that their hard earned money would suddenly vanish, a bunch of people went to collect their benefits. So, I hope the government should provide more security to hard working blue collar workers. Otherwise, everyone's lives will be really hard.*

Retired Ms. Zhang remarked:

*I have been observing international labor insurance developments recently and recommend that the domestic labor insurance system be opened up a little for development such as allowing people to select their own funds to provide choices for public investment in pension funds. I feel this would be quite flexible. Future domestic labor insurance policy may take this in consideration.*

With regard to the new labor pension system, the interviewees generally understood that companies contribute 6% of each month's salary to the pension fund and deposit the amount into the individual's dedicated labor pension account. If the worker voluntarily contributes a portion of this amount, then there is a tax saving effect. For people from different class backgrounds, the greatest difference may be that the income of business owners and dentists is much higher than the annual salary of the average citizen. As a result, labor insurance and labor pension fees are no longer the key focus of attention. Besides related new labor pension system being an operating cost for businesses and how to individually prepare pension funds in the future, the key principle is finding ways not to pay high levels of income tax. With regard to the income replacement rate for the average salaried worker or low-income household, labor insurance, labor pension system or national pension insurance premiums paid due to temporary unemployment (discussed below) all have become a major component of the pension funds. The completeness and security of labor insurance systems and the risks present in the fund have become the issues that people are most concerned about.

With regard to current domestic development, the Ministry of Labor has completed the related amendment bills which mainly involved changing the government commissioned operation of monthly allocated pension funds of workers to individual selection of the platform model and investment products by workers and

tax-exempt status. However, workers are individually responsible for gains or losses. The main reason is the Ministry of Labor has taken in consideration that less than 6% of the 340,000 workers make voluntarily contributions to their pension fund. It is hoped that allowing self-selection of the investment plan will raise the income of workers and make voluntary contribution more attractive. Selection of the original plan by workers is combined with the employer contribution into accounts to ensure an income no less than that from a two-year fixed term deposit (According to Article 32 of the Enforcement Rules of the Labor Pension Act: The profits from the utilization of employees' pension contributed in accordance with Paragraph 2 to Article 23 of the Act shall not be lower than the interest rate paid for a two-year fixed term deposit by local banks, and the average annual interest rate for the time period between the starting date of contribution until the legal date of pension collection shall not be lower than the average rate of interest paid for a two-year fixed term deposit by local banks for an equivalent length of time).

In addition, self-selection of platform items is presently being added to domestic policy. There are two self-selection options: funds and annuities. Self-selected funds are divided into aggressive, moderate, conservative and target date types. Annuities include guaranteed and non-guaranteed types. Workers can flexibly select the investment fund or annuity product based upon risk attributes and current age. The self-selected investment plan for voluntary pension fund contributions mainly originated from the U.S. 401K retirement saving plan and Hong Kong's Mandatory Provident Fund concepts. Through self-selection of funds, workers can increase the expected pension yield depending on the investment attribute which mainly allows private mutual fund companies to operate under a fixed time and amount model and encourages ordinary people to regularly contribute pension funds each month to their own pension account. By being able to select their own investment product, workers

may select an investment portfolio that suits their individual needs based on their own investment preferences and the length of time before retirement to accumulate their own old-age pension fund.

However, what should be paid attention to is the use rate after the self-selection platform is introduced, actual public participation incentives and problems regarding the performance of difference investment portfolios. For example, there are questions like: is the performance of aggressive, moderate and conservative types higher than the income from two-year fixed term deposits and do people have the relevant financial knowledge and time to manage related investments? In the future, government agencies will need to provide relevant guidance and training including selection of investment products that offer real positive benefits to working class people.

Generally speaking, the advantages of opening up self-selection of platform for pensions include the voluntary worker contribution percentage can be used for investment and is exempt from income tax. In addition, compared to the passive government fund management in the past, people can flexibly and actively select from a broader range of insurance annuities, funds and other investment products and select a reasonable return on investment based upon one's individual risk preference. One of the disadvantages is there is no minimum guaranteed income such as in the past with the National Treasury so there is the possibility that related pension funds of people could shrink in value. In addition, ordinary working class people may not have the related financial knowledge such as a comprehensive knowledge of currency, bond, global, regional and other various funds which would make selection of related products difficult. For the future, this research recommends related facilitating government agencies to team up with related institutional investors to strengthen financial education and guidance for people to give them a sound grasp of individual

retirement financial planning through self-saving, pension fund contribution or other investment channels and also link up with insurance associations and other organizations to encourage adoption of commercial insurance into the pension self-selection platform. The advantages gained include inclusion of annuity insurance to solve cash aging problems and inject vitality into Taiwan's commercial insurance market.



## 2. Discussion of the National Pension System

This research also discussed issues regarding National Pension Insurance including basic knowledge about National Pension Insurance, calculation of collected pension amounts and related recommendations. During the course of the interviews, some of the interviewees had not paid National Pension Insurance so the following are some of opinions of persons who have paid National Pension Insurance including Engineer Yan and the auto worker Mr. Wu.

Regarding his knowledge of National Pension Insurance, Engineer Yan said:

*I have been notified while I was switching jobs. I also have looked up some of the regulations. It is mainly for ROC citizens aged 25 to 65. People who are not covered by military, civil service, worker or farmer insurance must join the new system. But I haven't actually determined exactly how much of an effect the National Pension Insurance will have on my life after retirement. I only know I have receive payment reminders when I switched jobs. I just think of it as an extra source of funds after retirement. You know a little additional benefit.*

Mr. Wu commented:

*I usually receive payment reminders when I was out of work or switching jobs. The groups that are targeted for this insurance are students and unemployed persons. The government forces them to pay but I am not sure how much is received back. I feel that it is not too much.*

Generally speaking, the people who currently pay National Pension Insurance is ordinary workers during their time as a student or when switching jobs. But they were not very clear or concerned about that actual payment details. Conversely, they generally knew that another form of national insurance must be paid when one is out of work.

In addition, Engineer Yan made this comment about how to improve the deficiencies in National Pension Insurance:

*I feel like the amount received is not too much. So one must rely on your*

*own investments such as commercial insurance, stocks, funds or earn money through investment in real estate if possible to accumulate more money.*

Mr. Wu said this about National Pension Insurance:

*It would be better if we didn't have to pay National Pension Insurance. There are already a bunch of everyday taxes and all sorts of fees. The unemployed already have trouble making ends meet and they still have to pay this. I feel it is not reasonable. This is especially true for the older generation who feel it is strange or feel the government is cheating us out of money.*

From the interviews on the topic of National Pension Insurance, one can see that the average citizen has a relatively fuzzy impression of National Pension Insurance considering that it is a new system that people who do not participate in Labor Insurance and other insurance have to pay into. But there were some comments that indicated people who do not understand the system will generally believe that they are being cheated or even do not understand why one might need a supplementary payment system so the related National Pension Insurance System and implementation details should be included in the matters announced at meetings of grassroots officials such as village chiefs and neighborhood magistrates. In general, persons with high incomes do not care much about how much money they can collect from the National Pension Insurance System. For low and mid-level income persons, they hope the government can explain the policy details and direction more clearly and hope the government can use the money in the right places.

In addition, after examining related literature and the interview results, a number of significant improvements and revisions have been implemented domestically such as changing from the old labor pension system to the new labor pension system to correct some existing problems which have been organized into the key points below:

1. Individual dedicated pension accounts are primary and annuity insurance is



secondary: The employer must contribute at least 6% each month to the pension funds of their workers and deposit the amount into the worker's individual dedicated pension account set up by the Bureau of Labor Insurance which offers greater security for workers.

2. Cumulative labor pension system: For working period of the worker under the new system, the pension fund contributions made by the employer are cumulative and transferable. They are also not affected by job transfers or business closings and shutdowns so it is relatively secure.
3. Expansion of coverage: Mandatory contributions are made by ROC national workers under the Labor Standards Act including fixed-term contract workers and part-time workers.
4. Tax benefit incentives for voluntary contributions: Workers may make voluntary contributions to their pension fund ranging up to 6% of their monthly salary. For voluntary contribution by workers, the entire amount may be deducted from individual's total income for that year. The tax savings provide another incentive for workers. However, the employer should explain this clearly during the employment period of new personnel.
5. Pension collection method: Under the new system, anyone over the age of 60 may collect their pension regardless of whether or not they are currently employed. Persons who have worked a period of 15 years or more may collect their pension on a monthly basis. Those who have worked less than 15 years, collect their pension in one lump sum.
6. Collection of deceased worker pensions by survivors: Survivors or designated persons may collect the pension of workers who die before collecting the pension in one lump sum. For workers who die before the average life expectancy while collecting a monthly pension, monthly pension payments are stopped and the



remaining amount in the individual's dedicated pension account is settled and collected by the survivor or a designated person.

7. Operating cost may be clearly estimated by employer: The employer contribution of at least 6% of monthly salary to the pension funds of workers makes operating costs clear and easy to estimate. This reduces intentional layoffs and firings and other labor-management disputes arising from pension avoidance and helps to improve business competitiveness.
8. Guarantees minimum income for the pension funds of workers: According to pension regulations, the return rate from the use of workers' pension funds shall be no less than the interest paid for a two-year fixed term deposit. If less than this amount, the National Treasury must make up the difference which gives workers the security of a fixed interest rate.

In addition, the interviewees, in general, especially the mid to upper income ones mostly saw labor insurance old-age benefits and labor pensions as a basis to maintain their original standard of living after retirement. The issues that tended to show more concern about were commercial insurance which offered more comprehensive coverage and security. Investment in commercial insurance includes investment in some investment-linked insurance products with insurance and investment fund functions and regularly looking at foreign currency insurance policies or endowment insurance policies introduced by sales agents to find interest rates that are better than those offered by regular bank services. They would also invest their savings in stocks, real estate and other luxury goods which retain their value to serve an additional source of retirement funds. For high income people, they cared more about how insurance products could act as a tax saving instrument. As for low income people, they tended to choose commercial insurance that provided medical security due to

economic considerations arising from their relatively low incomes. They did not have extra money to invest in commercial insurance for retirement purposes. As a result, Labor Insurance and Labor Pension may become their largest source of income after retirement. The issues that most concerned them were lump sum collection of old-age benefits and which old-age pension offered the most benefits. According to the Bureau of Labor Insurance (<http://www.bli.gov.tw/sub.aspx?a=r6ieSn6mF1Y%3D>):

1. The life expectancy of ROC nationals after 60 years of age is 22 years but the average lump sum old-age benefit payment collected by persons covered by Labor Insurance is NT\$1.10 million which does not provide enough security for the long-term living requirements of workers after retirement.
2. According to Bureau of Labor Insurance estimates, a 60-year-old person with 25 years of labor insurance coverage and average insured salary of NT\$32,000 can collect a lump sum amount of NT\$1.12 million in benefits. However, if a person chooses to collect an old-age pension, the person can collect NT\$12,400 per month. The amount collected for 7 years and 7 months (NT\$1,128,400) has exceeded the lump sum amount. When using the life expectancy of 22 years for the calculations, a total of NT\$3,273,600 is collected over the 22-year period so the old-age pension has this advantage compared to the lump sum payment. Generally speaking, it offers more security.

For ordinary people, the majority of people choose pension payment for labor insurance which offers more security. Even if the insured person does not collect all of the benefits, it is made up by survivor pension method which can achieve the goal of offering improved social security. As mentioned above, middle class and above people generally use commercial insurance to prepare funds for their old-age pension. One of the most common forms of commercial insurance is investment-linked policies which allow people to invest in different types of products based on individual risk

preferences of the insured. Investment-linked products are more flexible. So some of the interviewees combined aggressive-type (such as emerging market countries, energy or stock market) with conservative-type (such as ordinary linked bond markets) policies. The profitability of the investment fund can also be checked regularly and then transferred into conservative investments. This offers more flexible choices to the insured. The interviewees also talked about how investment is cheaper when systematic investment (monthly) of fixed amounts is made when the overall economic outlook is poor and some can be withdrawn if deemed necessary when the overall economic outlook is good. Overall profit is about 10% so the commercial insurance interest is much better than the 2% fixed term rates provided by banks. They also regularly invest in foreign currency policies and short-term savings policy. The purpose is simply to look for better interest rates than bank fixed term deposits. The following research is directed at what is the appropriate role and insurance functions of related commercial annuity insurance with respect to the domestic labor insurance system.

## 4.2 Exploring commercial annuities insurance under the labor insurance system

This study focuses on the role and relevant functions played by commercial annuities insurance under the current labor insurance system. Interviews comprise of reasons of interviewees buying commercial annuities insurance and discussions on issues pursuant to differences between commercial insurance and labor insurance system, as well as directions for improvements in the future. At an interview about buying commercial annuities insurance and reasons for buying, boss Liu of an Iron and Steel Company mentioned that:

*In the beginning, I primarily bought health insurance, critical injury insurance, cancer insurance, prolonged medicare insurance, accident insurance, or other annuities savings insurance, etc. In addition, I also would take into consideration buying commercial insurance for salespersons with tax conservation in mind. Particularly, I dare not overlook risk in business. I have to avert risks through buying insurance commodities and I also have to consider inheritance by the future generations and other issues.*

But Dr. Chen mentioned:

*I bought health insurance, cancer insurance and accident insurance for myself in terms of wealth management and tax conservation. Aside from health and accident insurance, I also would like to buy relevant commodities related to wealth management and tax conservation including Investment- type insurance. Since I, myself, am in the medical field, I'm sure to be aware of the frailty of life. Furthermore, commercial annuities insurance is one of the wealth management tools to be taken advantage of.*

Henceforth, for high-income families including enterprise owners or doctors commercial insurance provides various functions and acts as protection against risks. It can take care of health protection, wealth planning, retirement planning and tax conservation, etc. Hence, compared to labor insurance and national pension insurance, reliance on commercial insurance is not so heavy. Except that personal income may

already be sufficient for early retirement, commercial insurance provides various other functions including wealth management or medicare.

Whilst teacher Chen mentioned:

*Initially, I bought commercial annuities insurance because the salesperson was a friend I knew. Additionally, I was introduced by friends to the basic health insurance, and wealth management type insurance. Also, I bought health insurance, accident insurance, hospitalization insurance, annuities insurance, etc. I bought those insurances primarily because of preparations against various risks in life including medicare and old age economic safety.*

And engineer Yan said:

*Aside from providing better protection than social insurance, I primarily bought health insurance and foreign currency insurance. Another consideration is the higher interest rate in comparison to regular time deposit. Therefore, aside from investing in stock and other financial commodities, commercial insurance has turned into one of the most mandatory savings tools.*

Henceforth, to regular middle class or median income families, they would seek balance in accident insurance, health insurance, and investment-type insurance (including savings and foreign currency insurance, etc.) as sources of income. For more stable living quality, commercial insurance could possibly add sources of income in addition to job or maybe utilize commercial insurance as a mandatory savings tool and use it as a source of retirement fund. To them commercial insurance and regular labor insurance probably may not be the only source of income after retirement. Possibly, they also make investment in stocks and other tools to make up for the shortfall.

At the interview, Mr. Wu, who works in the factory, said:

*I mainly bought accident insurance and health insurance so I don't have to pay so much myself. Moreover, the company has bought group*

*insurance for us. Therefore, basically I don't need to buy so much insurance. I cannot think in an all-round way because of my limited income.*

Naturally, in comparison to other median and low-income families who are in economic straits, they rely more on social insurance though they are in more need for commercial insurance (for instance, higher self-paid expensive drugs for hospitalization or other unpaid items). As such their investment in commercial insurance would be considerably less.

Moreover, presently retired Ms. Zhang said:

*Aside from buying insurance for health, accident and life (including working group insurance and additional self-paid portions), I also would buy commercial insurance such as short-term savings insurance or foreign currency insurance, and investment-type insurance. Unlike labor insurance, usually you would make more investment in commercial insurance; for instance, you would at least set aside NT\$10,000 for the monthly investment-type insurance. Moreover, you would also invest on an irregular basis certain savings insurance or make investment by observing bank interest rates, foreign currency exchange rates and buy foreign currency insurance as investment. Presently, my retirement living quality is not bad and I don't feel so much pressure now.*

To Ms. Zhang, who formerly worked for an institution, and who generally enjoyed higher income than the middle class, she was naturally more active in buying commercial insurance primarily for better deployment of her retirement life. Hence, after retirement she has made some investment and other retirement investment, as well as acquisition from commercial insurance, in addition to basic income from labor insurance and labor pension. She was better off in capital utilization and she could sometimes help out her children in buying apartment and vehicles instead of adding burden to them. Furthermore, both boss Liu and Dr. Chen mentioned the difference between commercial insurance and labor insurance as follows:

*There's no free lunch. Since you've to pay comparatively more for commercial insurance, protection is therefore more complete and you can*

*have more flexibility in buying the type of insurance you prefer and with voluntary effect. For instance, in buying investment-type insurance you can choose yourself buying what type of funds, etc. or foreign currency insurance, etc. or pay attention to the international financial development trends and buy certain insurance policies. But for annuities insurance you have to consider the interest rates and whether insurance claims meet your personal requirement.*

To high-income families, they usually are in contact with high-asset families, or comparatively show more attention to international economic development trends and issues, thereby they are more sensitive to financial wealth management issues and naturally would buy foreign currency insurance policies, investment-type insurance policies in combination with funds or other more competitive annuities insurance types, etc. Of course, they would invest in stock, properties or certain valuable assets as preparation for retirement. Since they have relatively adequate assets, they tend not to place all eggs in one basket.

Teacher Chen said:

*Generally, labor insurance provides only the most basic protection. I usually show attention to certain foreign currency insurance policies on an irregular basis and felt satisfied with profits. I consider buying annuities insurance because interest rate is relatively better off. Engineer Yan mentioned: I probably spend more on buying insurance, for instance, for labor insurance the employer only appropriates 6% of the payroll or approximately NT\$2500 while I personally invest about NT\$10,000 on financial wealth management commodities. Of course, I expect more in terms of protection or compensation.*

Hence, to the middle class its expectation for commercial insurance is to maintain a standard of living above a certain level after retirement, in comparison to “additional” income opportunities from basic protection.

Mr. Wu said:

*Commercial insurance should provide more complete and better*



*protection than that from the government; otherwise, it is unnecessary to buy with additional money. For instance, in the event of accident or death, you can have more financial subsidies, or leave more to the future generation, or like time deposit insurance, etc. Staying one day more you can get an additional thousand or two thousand dollars. This is most helpful when you're out of work.*

Compared to the low-income earners, they usually tend to buy comparatively short-term insurance policies such as accident or time deposit insurance types with relatively lower premium in the hope of certain compensation for certain circumstances. However, this is relatively inadequate overall and in the event of cancer could cause dire economic difficulties for the low-income earners. Finally, in discussing about commercial insurance and issues related to future insurance, boss Liu mentioned:

*Principally, we have to take into account the development trend of the time. For example, rising medical expenses and the aging trend, etc. In the wake of inflation, money will buy less and less. Therefore, if annuities insurance can provide comparatively better interest rates or rightly targeted on the syndrome, such insurance may become more competitive in the time of thin profits.*

Dr. Chen added:

*In the future, medicare for the aged will become popular. Whilst insurance related to dental care premium is by no means low. There may be other requirements which industry operators may also take into consideration.*

Hence, dwelling on the interviews of corporate boss or physician, they would pay more attention to commercial insurance and return to wealth management requirements or dental insurance, etc.

Teacher Chen pointed out:

*Presently, the trend of having fewer children plus the trend of aging, as well as a rise in chronic diseases, commercial insurance in the future will be developing prolonged medicare insurance. This is precisely an*



*inadequate field of medical insurance under current specific conditions.*

Engineer Yan noted:

*Direction of improvement for commercial insurance in the future: Following lower and lower interest rates, commercial insurance also pays less and less. It is hoped that insurance operators develop more favorable commodities and attract the public buying in combination with basic medical insurance and comparatively products with higher interest rates; otherwise, the public may be attracted by other financial commodities or substituted.*

To the middle class they would pay more attention to the current social trend of having fewer children and aging, particularly prolonged medicare insurance related to early retirement and the risk of a longer life.

Additionally, presently retired Ms Zhang pointed out:

*In observing the rising commercial insurance premium in recent years, the low-income younger generation would be in more difficult situation. Hence, it is important to design insurance policies with comparatively higher interest rate than government or bank units and can control within reasonable pricing range. Though I have certain retirement capital planning, I also worry about prolonged medicare insurance because of widespread chronic illnesses.*

Overall, most expectations for commercial insurance in the future focus on prolonged medicare insurance in anticipation for the trends of having fewer children, aging and modern chronic illnesses. It is expected that the government can formulate corresponding policies, including prolonged medicare insurance policies including introduction of healthy villages for the elderly. Such shall be the direction for integration in the future.

And Mr. Wu noted:

*Basically, it's a matter of returning to actual daily living. Recently, all commodities rose in price including insurance premium. With limited*

*budget in the future, it is better to provide fair insurance policies, otherwise “there will not be stored food for the future if not sufficient raw food for the present.”*

Therefore, to comparatively low-income families their concern is to meet basic subsistence with limited budget. Few can concomitantly take care of everyday living and retirement planning while working. Most people have to rely on government social insurance for a better retirement living standard.

In summation, for families with different incomes, their investment in commercial insurance would differ. Of which, for high-income earners, deployment for medical insurance of commercial insurance would be more comprehensive. Generally, they comprise of medical insurance, critical injury insurance, cancer insurance, prolonged medicare insurance, accident insurance, etc. Moreover, they would also engage in annuities savings insurance and investment-type insurance with tax conservation. However, median income-earners would engage in important medical insurance or wealth management insurance policies pursuant to their financial capability. In particular, they usually can accept the concept of the insurance iron triangle including accident insurance, medical insurance and investment-type insurance (including savings) and strike a balance.

Furthermore, to the comparatively low-income earners, they usually live on a limited budget. Hence, they pursue basic medical insurance and pay less attention to overall wealth management and comprehensive insurance. To them, any changes or risks to the old age annuities system of the labor insurance system could have greater effect on them. Henceforth, to families of different income levels, the role and function played by commercial insurance would differ. Generally speaking, to families who engage in commercial insurance, they usually hope for additional or

more complete and varied protection or other wealth management requirements under the government labor insurance system.

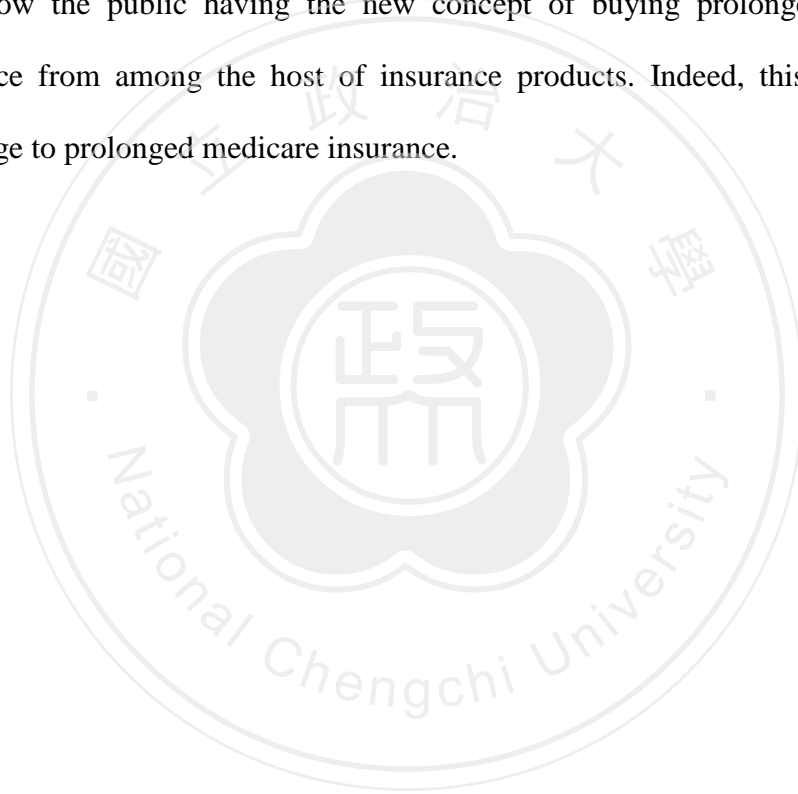
In addition, the latest development of commercial insurance in Taiwan is as follows:

1. Annuities insurance has gradually become a tool for pursuing corporate welfare:

Presently, certain enterprises have commenced using commercial insurance by installment as a source of salaries and welfare for attracting talents. Its operation skill is to use the company as the insured, and award employees with additional welfare appropriation according to performance. However, upon expiration of a number of years, the employee would become the insured for retirement life protection. However, if the employee leaves the job, the company can retrieve the severance bond. Hence, the enterprise can fully utilize the commercial insurance as a tool for providing basic protection to employees. Such are the advantages for the enterprise in retaining talents and making flexible planning. Moreover, since receipt from insurance premium and salaries differ, it is unnecessary to pay comprehensive income tax or have the concern of diluting the equities of major shareholders through stock options and bonuses. Also, it gives employees more protection of retirement life.

2. Future development of prolonged medicare insurance: President Ma Yingjeou has attached importance to the issue of prolonged medicare over the years primarily because of anticipation of the aging society. The Ministry of Health and Welfare has drafted prolonged medicare insurance. The draft has the government, employer and worker jointly share the insurance premium which subsequently lessen the economic burden of families. Moreover, for example, in the future the Finance Ministry will formulate within a reasonable range prolonged medicare insurance for the elderly or set forth a deduction amount for comprehensive

income tax including expenditures for “annuities insurance” and “prolonged medicare insurance” with a tax deduction amount of NT\$24,000. It requires enterprises to insure each employee a year with a tax deduction amount expanding from NT\$24,000 to NT\$82,000. Enterprises are encouraged to buy group annuities insurance for employees. This is major bonus information for prolonged medicare insurance among commercial insurance. However, relevant industry operators should formulate a reasonable range of insurance premium for the future, and allow the public having the new concept of buying prolonged medicare insurance from among the host of insurance products. Indeed, this is a major challenge to prolonged medicare insurance.



### 4.3 Summary

Presently, the old age annuities of the labor insurance system in Taiwan mainly provides economic backup for retirees. Additionally, it also flexibly gives the option of delaying or advancing pickup of annuities according to the worker's retirement planning, as well as designing inheritance annuities (or survivor pension) so that the dependents of retirees who conform to the inheritance requirements can receive the annuities if the insured pass away during the effective insurance period, or if they pass away when they are still eligible to receive old age pension or disability pension. This assures prolonged living protection for dependents of the insured and conforms to the guideline of social security. However, the government labor system is designed for the general public and is bound to have shortfalls in the system.

Take for example the national pension insurance, we find that throughout relevant documentary data and interview, the intention of the pension insurance is to incorporate the unemployed, housewives and students into national insurance. However, such people lack sources of income and would add additional burden to the family. In particular, because national insurance is a voluntary system where husbands and wives have the obligation to pay for insurance premiums for each other, the National Annuities Sales Division of the Labor Insurance Bureau can mete out fines to the other party and enforce execution in the event of arrears in payment. This surely aggravates the situation of the inharmonious married couples.

Additionally, in light of commercial insurance, different incomes leading to diverse income substitution rate and cognition of risks would affect insurance buying. Generally speaking, high asset clients and low asset clients have varied security feeling about finance and risk protection. To low-asset clients in particular, they usually do not have surplus money for wealth planning since they are living on a

subsistence level. But for high level clients, they would consider saving tax and leaving inheritance to the future generation aside from an all-round medical protection. So for high asset clients including entrepreneurs or dentists or physicians, they may not incorporate their payroll into the tax deduction slip since they might transfer tax in other ways.

To high asset clients one of the purposes of purchasing commercial insurance is to save tax. The Modern Insurance Magazine (2014) pointed out: Among the various financial and wealth management tools, insurance has a strong function of saving tax. Aside from a tax deduction amount of NT\$24,000 each year for insurance premiums, insurance payment can permit transfer of assets and further save inheritance tax, etc. In recent years, the National Taxation Bureau also started to pay attention to the “real taxing principle” and mete out fines to the public for tax evasion. For example, upon signing of the insurance contract, wanton change of the insured and beneficiary can involve provisions of the income tax ordinance, income basic tax ordinance, and regulations of the inheritance tax and gift tax. The insured should follow relevant taxation regulations in terms of change to the contract. In practice, insurance premiums can be deducted from tax only if the insured and the insurer have filed application. According to provision 2, item 1, Article 17 of the Income Tax Ordinance, the tax payer may file for NT\$24,000 of tax deduction annually from life insurance (including life insurance, health insurance, injury insurance and annuities insurance), labor insurance, national pension insurance, military and civil service and teachers insurances of the payer, spouse and dependents. However, if the beneficiary and the insured are not the same person, all insurance payments will be counted into basic income. Moreover, if change of the insured or beneficiary is an act of gift then insurance payments also must pay inheritance tax since insurance has financial value.

Nevertheless, to the median and low-asset public, the primary function and

purpose of insurance is to pay insurance premiums on a regular basis so that in the event of payment expiration or accident of the insured, the beneficiary of the insurance policy is entitled to insurance claims, thereby provide a stable living quality and an economic source for retirement of the elderly.

The overall labor insurance system in Taiwan has gradually developed from being an investment totally arranged by the government to open up for free option to the public and provided more incentives to the public in turning insurance as a source of retirement fund. Nevertheless, we must note that the general public is usually weak in wealth management. For instance, the public has no clear idea about so-called proactive insurance type, conventional insurance type and corresponding risks entailed. Furthermore, overall income could be less than that guaranteed by the government and subsequently the public has concern for the new policy direction or lose confidence. We hereby recommend the government to simultaneously carry out planning, enhance the public's education for wealth management and promote the insurance concept. The government should allow the public to know the operation of the labor insurance system, a reasonable retirement fund, and monthly appropriation for insurance to enable a corresponding living quality after retirement. In other words, make the public aware of the concept for income substitution rate, and fully utilize voluntary appropriation for labor insurance or to make investment in commercial insurance and other tools for better retirement planning, thereby make them aware of the importance of prolonged medicare insurance and implications under the era of having fewer children. Consequently, the public will understand more and have more security about the trend of government policies. With a clearer concept about insurance wealth management, the entire insurance industry will become more active, and the public can expect a more secure retirement life. This is the win-win-win situation for all.

## Chapter 5 Conclusions and Recommendations

The followings are final conclusions made according to the exploration of literatures and interview results, and recommendations made to relevant units. In addition, the study has also tried to put forth some suggestions for future related studies.

### 5.1 Conclusions

Under the current local labor insurance system, the annuity insurance in commercial insurance can provide the functions of financial planning, tax saving and retirement planning for local people, which can also make up for the deficiency in labor insurance, labor pension and national insurance. To explore the differences between varying systems, the general labor insurance system shall be observed from the essence of social insurance. The main differences of social insurance from commercial insurance mainly cover the following sectors:

1. Social insurance is mandatory and entitled to provide protection by law.
2. In addition to taking the insured's interests into account, the scope of social insurance coverage should also concurrently consider public interests. Hence, mandatory standards shall be set up to include the disadvantaged workers.
3. The financial source is partially from insurance fees paid by the insured, partially from employers who should also contribute some of the fees, e.g. national health insurance, labor insurance or labor occupational disaster insurance, etc.

Therefore, social insurance mainly provides protection for wage earners in case of illnesses, occupational disasters, disability and senility, etc. Since wage earners are relatively vulnerable to the aforesaid risks, if they lose their working ability—the only way for them to make a living, social insurance, such as labor insurance's old-age benefits, shall be used to ensure their financial income. In other words, social



insurance is between commercial insurance and social assistance. General commercial insurance emphasizes the connection between premium and benefit and the amount of its premium is determined according to the level of the risk, whereas social assistance puts more focus on collective solidarity to help the underprivileged through government tax imposition. As a whole, it can only provide the basic coverage for the insured.

Other than compiling the literature data of related insurance systems, the study also interviewed all walks of life in society, covering business owners, dentists, high school teachers, engineers, and auto maintenance mechanics(blue collars), etc., and organized the interview results, with which some important issues as below have been found:

- 1. The labor insurance system has yet to be fully integrated, which shall be solved by strengthening and activating the current insurance operation mechanism.**

Currently, the premium rates of Taiwan's annuity insurance are still rather low. To compound matters, due to rapid increase in aged population, more and more old-age benefits have been applied, which results in serious financial imbalance. Some news reports even revealed possible bankruptcy of the labor insurance fund. Under such circumstances, our government shall reinforce publicities to its people by explaining its policy implementation, enhance transparency of its policy figures and elaborate on the details. The government may use specific cases to promote the concept of retirement adequacy and pension income replacement to respective ranks of income receivers. In addition, due to local declining birth rates, aging people, early retirement and longer life expectancy, the long-life risk related trends are increasingly obvious. It is estimated that, by 2060, one old person will be required to be supported by 1.3 working persons. Furthermore, due to the lack of cognition of labor insurance,

labor pension and national insurance systems from the general public, commercial annuity insurance has risen to make up for the deficiency. The “partial lodgment” adopted by the government’s current annuity system is used mainly to encourage the mechanism where the premiums of old-age benefits received by retirement personnel are to be partially paid by individuals during their working period. Other than the insurance being paid by the current working population, commercial insurance can also be used to alleviate the possible retirement insurance problem resulting from massive retirement. In so doing, the existing insurance operation mechanism can be more activated which will help resolve the resulting problem.

**2. Under the current labor insurance system, commercial insurance turns out to be important supplementary insurance, in which different aspects of consideration for varying levels of incomes will be required.**

According to the interview results, investment in commercial insurance may vary with people of different incomes, in which those who have higher incomes may purchase more comprehensive medical care, such as general medical care insurance, critical injury insurance, cancer insurance, long-term care insurance and accident insurance, in their commercial insurance. In addition, they may also add the policy with financial planning and tax saving functions, such as annuity saving insurance, foreign currency insurance and investment linked insurance, to make their insurance more intact. As for those whose income is on the average scale, they generally may only cover the more important medical care insurance or financial planning insurance according to their financial ability, in which they often apply the insurance triangle concept by covering accident insurance, medical care insurance, and investment linked (including saving) insurance to get the balance. For those whose income is on the lower end of the scale, they have to consider their limited income, so their insurance mainly covers the basic medical care, and they are in a weaker position to

deploy their financial planning insurance. As such, for the groups varying in incomes, commercial insurance plays different roles and functions. Generally speaking, commercial insurance policy holders always hope to seek for more integrated or diversified coverage or other financial planning benefits under the government's labor insurance system. Under such circumstances, the following kinds of commercial insurance will become the mainstream in the future: interest-sensitive insurance, investment-linked insurance, annuity insurance, or medically related long-term care insurance, general medical care insurance or other special kinds of insurance, such as the Easy 360 Degree Realization of Retirement Dream Project launched by a local insurer targeting the retirement group, which flexibly combines varying kinds of insurance based on different attributes by providing appreciation feedback fund and varying currencies' investment to counter the aforesaid inflation, and offering transfer of the maturity benefit to annuity to eliminate long-life related risks, etc. All of these will be the future development directions for commercial insurance.

### **3. Relevant complementary measures for the social insurance system shall be developed according to different levels of income earners**

As mentioned above, while there are trends of aging, declining birth rates, compounding inflation, unlikely salary raise and the overall stagnant economy, the financial burden of the middle and lower income workers will get heavier and heavier. For those who are in different income levels, factors affecting their pursuit for high quality life and living security may vary. As a result, their budgets and integrity for commercial insurance may also vary. Nevertheless, in terms of whole society stability, the groups with low income or low income replacement rates are those who generally lack financial planning and medical care protection, so they are more dependent on government's labor insurance system in order to elevate their post-retirement living quality and medical care. It recommends that, for the labor insurance reform, relevant

complementary measures be developed according to different levels of incomes, so as to build a more integrated social security protection system.

#### **4. The labor self-selection platform in the draft of amendment to the new labor pension system shall cover complementary measures.**

Currently, the government is working on amending its labor insurance system by referring to the labor insurance development in the countries worldwide, such as the U.S., Hong Kong and Macao, etc., in the hope of opening the self-selection funds to the general public, so as to increase the insured's investment amount in the labor pension and meet the needs in response to the overall development trend. However, the study found that it would be too complicated for the general public to understand the goodwill of the government according to the added self-selection items including two types of self-selection funds and annuity, which have further divided into aggressive, moderate, conservative and target date types for the self-selection funds, and guarantee as well as non-guarantee types for the annuity. Hence, when setting up policies, it recommends that the relevant government agencies simultaneously put forth financial planning education plans to introduce latest labor insurance system's operation status, income replacement ratios, correct financial planning concept, and promote the concept of long-term care, so the government's new policy directions can have expected effects, and avoid public's doubts about their additional worries or financial burdens resulting from their ignorance of the launched national insurance. Moreover, as put forward by Chen Shu-Huei, Chen Yu-Lung (2013), the mechanism releasing self-selection investment has been an important development trend for the major countries in the world adopting the defined contribution plan. With the self-selection investment mechanism, both employees and employers can have the right to determine their investment, and use the self-selection platform to manage the pension funds which will facilitate labor's retirement rights and interests, for instance,

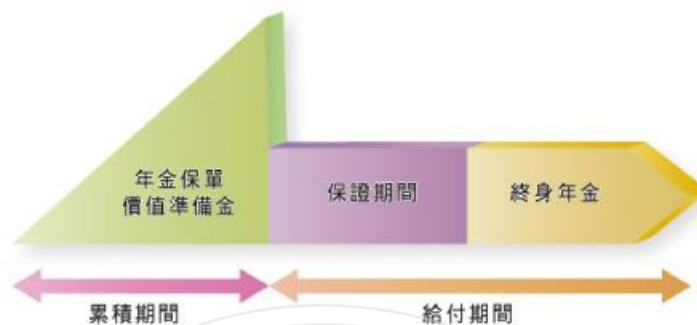
the US's 401k pension plan and Hong Kong's Mandatory Provident Fund Plan, which are mainly based on the employer and employee's self-selection platform scheme and annuity insurance's pension management system. The study results also indicate that government's pension funds are all lower than the funds on the commercial annuity insurance platform. On the other hand, when the investment period is shorter, the performance of life cycle ratio allocation, aggressive, moderate and conservative types does not show any significant variance. However, the investment return will improve as the investment period becomes lower. Hence, if, in the future, the government could reinforce its promotion, aggressively open the labor pension self-selection platform and increase tax shelter to elevate worker's self-allocation ratio, workers are recommended to do self-allocation and lodgment, so OECD's income replacement ratio could be achieved through long-term investment. Also, as limited by statutory laws and regulations, the average income of corporate annuity insurance shall not be less than bank's 2-year term deposit interest rate, in which the deficit shall be made up by the insurance company. Furthermore, corporate annuity insurance shall not be processed until adopted by a majority of 200 insured members. As a result, no annuity insurance businesses have been launched in the insurance market to this day since the new labor pension system was launched. In the future, it is hoped that the government will relax its laws and regulations, so the commercial insurance industry may design appropriate annuity products in accordance with labor pension fund's self-selection platform to meet the market demand. When the fund platform can provide diversified and appropriate products for selection and offer selectable guarantee income, local people's retirement life will then be more integrated.

## **5. Joint action of government, enterprises and private institutional entities to promote integration of citizens' retirement life planning**

Latest local insurance development, covering opening of new labor pension

system's self-selection platform and promotion of long-term care insurance act, shows that local policies shall be adjusted to respond to overall global development trends and the circumstance where whole society is aging and birth rates are declining. As such, the study suggests that, in the future, the government collaborate with related institutional entities and enterprises to reinforce the integrity of retirement insurance, e.g. in addition to combining related institutional entities to lay the ground for the aforesaid fundamental insurance and financial planning education, the public's retirement financial requirements shall be further analyzed with the concept of the government big data, followed by setting up each citizen's monthly self-contribution amount and the goal of the yield in accordance with the replacement ratio, so as to gain people's confidence. Additionally, the government shall encourage general enterprises to include annuity insurance as one of their personnel welfare policies. In so doing, the enterprise per se can be more flexible to control their expenditure and cost, help their personnel equipped with the financial planning concept and increase the contribution amount. On the other hand, by simultaneously utilizing related policy instruments and facilitating legislation to include commercial insurance or other multi-financial instruments in the labor pension self-selection platform, the financial insurance market will be more activated. In the future, if the increase of tax exemption amount for the purchase of commercial insurance can be applied according to the draft of the long-term care insurance purchase system, local people will be more interested in preparing their own pension. Also, the insurance industry shall extend the premium payment years for interest-sensitive policies and adopt the measure not allowing short-term surrender. The main feature of interest-sensitive policies is that the insurer may monthly adjust its "declared interest rate," in which a policy holder shall pay their premium in "a single lump sum" in the beginning, and, after deducing related expenses, the policy value reserve of the insurance product shall be calculated

according to the declared interest rate applicable to the beginning of the policy year. Taking the interest-sensitive annuity currently popular in the market as the example, the fig. 6 below shows the product structure of the interest-sensitive policy.



**Figure 6 Structure of Interest Rate Sensitivity Policies**

Data source: Taipei Fubon Bank

[https://ebank.taipeifubon.com.tw/ibank/html/pages/jsp/LifeAll/LifeAll\\_10.jsp](https://ebank.taipeifubon.com.tw/ibank/html/pages/jsp/LifeAll/LifeAll_10.jsp)

After expiration of the period accumulating the policy value reserve for an interest-sensitive policy, the policy holder may freely choose if going into the annuity benefits. Given that the policy value reserve is calculated according to the declared interest rate during the accumulation period, this kind of insurance shall be more suited to those moderate customers who plan the capital required for their long-term retirement life. When it comes to the annuity benefit period, the insurance company will annually pay the annuity benefit as long as the insured is alive. Generally speaking, the longer the insured live, the more annuity benefit they will receive. Those who live in the modern world where medical care and technology have daily improved may make good use of the interest-sensitive annuity insurance product to plan their retirement life, so as to eliminate the risk of deficiency in living cost in their retirement life. However, in recent years, some insurance companies launched the “appreciation feedback fund” strategy for their interest rate sensitivity insurance products, in which the difference between declared interest rate and policy interest



rate would be distributed to the policy holder as interest. Some insurance policies even offered monthly interest distribution, which greatly appealed to high-asset policy holders. When drawing a large amount of short-term capital, the insurers are possible to encounter liquidity problem if the insured surrender the insurance at any time. As such, in August 2014, the Insurance Bureau of Financial Supervisory Commission promulgated two measures including not offering appreciation feedback in the first 10 years of the interest-sensitive life insurance policy, in which there would be no cash interest, the amount could not be put in the account for yielding interest and the policy holder could only choose to increase purchase of the guarantee amount or offset the premium payment, whereas the surrender fee should be charged for at least six years, so the insurance would not turn out to be the short-term saving insurance.

Furthermore, with the “policy conversion act” launched by Financial Supervisory Commission in August 2014, those who hold the life insurance policy may convert the life insurance into health insurance (including long-term care insurance) or deferred annuity insurance under the principle not to increase the premium amount. As estimated by the life insurance trade, the market could potentially generate at least three to four million cases of policies, in which about 1.5 million people will benefit. When requesting the insurance company to do the conversion, the policy holder shall be entitled to return to the old policy within three years. The purpose of it is that, after the policy is converted, the insurance will have the annuity benefit function, which will provide the insured with the position to use the insurance amount. In reality, the life insurance company will first calculate post-conversion policy value according to the policy holder’s age, and health status, followed by comparing the calculated value with the value of the old policy and returning the difference or having the difference made up. With the conversion function, the policy holder may split their policy, in which, in addition to the original



life insurance policy, a health insurance policy can be added but the amount of the original life insurance policy will be reduced. In view of current overall commercial insurance development trends, the government policy orientation has also been heading for diversification and flexibility, so those survivors who actually make the premium payment can make good use of their risk planning for the rest of their life, and will be more willing to put more focus on their insurance financial planning.

The main purpose of extending premium payment years through institution of related policies is for the insured to be able to plan their retirement life with commercial insurance. To respond to the function of life insurance policies, by the end of 2014, commercial insurance companies successively promoted the activation of policies (functional contract conversion) to provide the middle-aged and senior insured who are qualified for the activation of policies with an opportunity to convert their insurance products and to assist them to plan perfect retirement life. However, the conversion of policies has aroused criticism from the public as over the years, Insurance Bureau, Financial Supervisory Commission has been criticizing life insurance companies for selling merely savings insurance, leading to low average insurance coverage for death for Taiwanese. On the premise, how can the insured have sufficient insurance coverage for conversion? Nevertheless, some people think that the purpose of policy conversion is to solve the problem of negative spread of policies of life insurance companies, especially “old companies,” and that people eventually have to pay for the negative spread. Therefore, before you choose to convert your policies, it is better to evaluate your policies first. Insurance products have to be viewed and adjusted in different life stages to effectively elaborate their risk transfer function. In recent years, due to aging population and declining birth rate in Taiwan, I, being a supervisor of commercial insurance, suggest that the insured

examine their policies based on their retirement planning and find out their needs in different life stages, for example, whether your savings and asset allocation can meet the demand of your retirement life. If the answer is no, life insurance for your family can be converted into pension insurance through an activation mechanism for policies when you have less family responsibility to elaborate the risk transfer purpose and function of insurance buying to the maximum.



## 5.2 Future Recommendations

Finally, aiming at subsequent relevant research, the study puts forth the following practical recommendations:

1. The study mainly investigated Taiwan's labor insurance system including labor insurance, labor pension and national insurance. It did not cover some other kinds of important social insurance, such as health insurance, civil servant insurance and military insurance, etc. Future studies shall look into the coverage and improvement of other types of social insurance and give a comprehensive exploration, so as to provide more complete reference for well-rounded development of commercial insurance in the future.
2. The study adopted the qualitative research method and designed relevant questionnaires for interviewing all walks of life with different levels of incomes. Adoption of the quantitative method for future research is recommended, so existing labor insurance income and expenditure systems could be better understood and different points of view from all walks of life could be provided.
3. The study mainly put its focus on qualitative interviews with the general public. It recommends that interviews be made with policy makers and persons in charge, so as to have a more comprehensive understanding about institution of labor related social insurance systems and the key issues required to be considered.
4. The study mainly explored the issues regarding local labor insurance systems and commercial insurance. Given a close tie between both sides of the Taiwan Straits over economic development and population exchanges, comprehensive research to expand the scope to cover the labor insurance system and commercial insurance development across the Straits is recommended, with which the results could be used as the reference for exploring development of the future insurance market.

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