TAIWAN'S PENSION CRISIS IN THE MAKING

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Executive Summary

1. Taiwan's complicated pension system is under restructuring. The contribution rate for the public servant pension fund is 12% of double the base salary for military personnel, civil servants and public school teachers. They shoulder a 35% share, while the government covers the remaining 65% to the fund.

2. According to the 2016 Pension Sustainability Index compiled by the Allianz Group, Australia, Denmark, Sweden, the Netherlands and Norway were countries with the most sustainable pension systems. Meanwhile, Taiwan was ranked 14th from the bottom and its ranking is falling rapidly due to the failure of its pension reform efforts.

3. According to the Ministry of Civil Service, the military pension system will go broke in 2020, the labour pension system in 2027, the pension system for teachers in 2030 and that for civil servants in 2031.

4. Democratisation has sown the seeds of Taiwan's pension problems, with political parties competing over social welfare and pension benefits to please voters.

5. Voters understandably like to see substantial increases in social welfare and pension benefits, while fiercely resistant to increases in taxation. This tendency has given rise to an upward trend in social welfare spending since 1994.

6. The expansion in social welfare spending has caused Taiwan's government debt to roll, which is likely to be harmful to economic growth.

7. Taiwan will become an aged society when 14% or more of its population turns 65 years old or older in 2018. By 2026, 20% of its population will be 65 years old or more, turning Taiwan into a super-aged society.

8. This would mean more retirees and more pension-related expenditure. Population ageing could lead to a government budget deficit with the siphoning of

government expenditure to health care and social welfare, thus reducing the potential tax revenue. That will impose a considerable tax burden on the younger generations.

9. The Tsai administration plans to raise taxes on inheritance and tobacco for financing the long-term care of the elderly. Since the business cycle might have an adverse impact on these tax revenues, the sustainability of tax revenues for long-term care poses a critical challenge for the Tsai administration.

10. Government employees and other workers are covered under different pension schemes. Discontent is emerging among military personnel, civil servants and public school teachers. Pension reform in Taiwan has given rise to class antagonism between different classes and generations.

11. Without a sustainable pension system, the future generations of taxpayers will shoulder the pension spending on current generations. Indeed, an end to Taiwan's low economic growth is a prerequisite for a sustainable pension system.