TAIWAN’S SOCIAL WELFARE SYSTEM IN PREDICAMENT AFTER EXPANSION

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Executive Summary

1. If relevant policies do not change, Taiwan’s major social insurance and pension programs will go bankrupt in 20 years. This impending financial crisis in Taiwan’s social welfare system has caused the society to panic and triggered a record number of claimants for lump-sum pension payments in October and November 2012.

2. In the past two decades, Taiwan’s social welfare system has expanded rapidly. The increasing democratization in the 1990s and the election-driven party politics in the 2000s have contributed most to both the achievements and the problems of Taiwan’s social welfare system.

3. There are five major pillars for Taiwan’s social welfare system: social insurance and pension programs, social allowance programs, social assistance programs, social welfare service programs, and programs for improving employment, developing communities and building social housing.

4. Among these programs, National Health Insurance is the most favored social policy by the Taiwanese and also well-known internationally. Taiwan’s pension system is occupation-based and has achieved universal coverage with high income replacement rate upon retirement.

5. One of the major achievements of Taiwan’s social welfare system is its increasingly positive redistributive effect on income equality in Taiwan.

6. Taiwan’s tax burden is among the lowest in the world; yet this has not only failed to reactivate economic growth in recent years, but also seriously constrained revenue growth of the Taiwanese government.

7. According to an actuarial report, the optimal premium/contribution rates of Taiwan’s social insurance and pension programs are about three times the present rates. Neither the Democratic Progress Party nor the Kuomintang
The (KMT) administration has enough political will to increase the rates at the optimal pace to solve the impending financial crisis caused.

8. Political consideration has also prevented the Taiwanese government from integrating some fragmented social welfare programs to improve the system’s efficiency. Welfare clientalism, created by the KMT government since the 1950s to provide additional welfare to employees in the government, the military and schools, is a major area for reform.