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## Taiwan Grapples With Retirement Finance

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By Kerry Pechter     *Wed, Oct 28, 2009*

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*Over lunch in Taipei, economist Jack Wu explained the pension dynamics of an aging society.*

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TAIPEI—Jack Wu teaches economics at the National Chengchi University in Taiwan’s capital, and he’s had first-hand experience with the country’s evolving pension system. As a professor at a public university, for instance, the 43-year-old bachelor is covered by the public employees pension system.

The pension isn’t as generous as it used to be—those hired since 1995 don’t earn the guaranteed 18% on savings in retirement that some older civil servants still enjoy—so Wu has mutual funds with AEGON and ING and contributes \$450 a month to a university-sponsored deferred income annuity from Taiwan Life.

“The 18% policy was said to have created a great burden on those outside the public sector, who thought it was unfair,” Wu told RIJ over a lunch of spicy chicken and noodles yesterday at the Sheraton Taipei on Zhong Xiao East Rd.

Wu, who has a Ph.D. from the University of Michigan, is also a first-hand participant in Taiwan’s response to the fact that, like the United States, it will soon have too few workers supporting too many retirees. He’s part of the international *Aging Society 2030* project, serving on a team that is helping boost financial literacy in rural parts of this subtropical New Jersey-sized island nation of about 23 million.

“The savings rate is high in Taiwan, but only five or six percent of the population invests in securities,” he said. “The rest put their savings in the bank. That’s why I and two other colleagues from the Department of Social Work and Insurance are working on a project to educate the elderly people to make investments, prepare for their retirement, and not rely only on the social security system.”

### **New defined contribution plan**

East Asian countries like Japan and Taiwan are faced with a demographic double whammy: their longevity is among the world’s highest and their birth rate is low. In Taiwan, married couples are producing only about 1.1 child each. And even as they lose manufacturing jobs to China, only 120 miles away across the Taiwan Strait, the Taiwanese are trying to establish a stronger social insurance safety net, including national health insurance and pension reforms.

“We had a new labor pension scheme launched in 2005,” Wu said. “In the past, if you worked in the private sector, your employer could deposit some money for your pension, but if you didn’t work there until retirement you lost it. Now we have the new individual account.

“Your employer deposits six percent, which is mandatory, and you can add another six percent voluntarily. The contributions can only receive about three percent interest, a time deposit, so we haven’t really had self-management. They collect the money, and invest in stocks and bonds, and give you three percent.

“About 30% of the Taiwanese are self-employed and in the past have been outside the official pension system, but we have a new national pension in October 2008 that covers them. They must contribute 675 Taiwanese dollars a month (about \$20) and can receive a retirement benefit of about 7,000 Taiwan dollars a month (about \$210). That’s only enough for basic needs. For low-income people the government subsidizes 100% of the contributions,” he said.

But not everyone likes the new plan. “Lots of people are refusing to pay into national pension for their children or spouses, because they think the benefit isn’t high enough and because they’re not sure whether the assistance will be there when they retire,” Wu told RIJ.

“Only about 60% of the people who are supposed to be covered by national pension are paying, and they represent about 20% of the whole population of Taiwan. The system is still trying to work and the government is pushing more people to participate in the pension,” he said.

“Most people in the rural areas don’t even know how to contribute to the national pension, even though the government has sponsored commercials about it. People in the rural areas think they can rely on themselves. We also have the Old Age Farmers Allowance. Farmers can get 6000 Taiwanese dollars a month, and they don’t have to contribute. Elderly people can also get about 3000 Taiwanese dollars a month, or about \$180, without contributing anything.”

### **Reverse mortgages**

To help Taiwanese families finance retirement, Wu said, the government has promoted reverse mortgages, financed through banks. But, if successful, such a program could clash with cultural norms. “In traditional Chinese society, the property is important, and parents would leave property to children,” he said. “But if they use the reverse mortgages, there might be issues.”

Rather than being able to look forward to selling their homes and living with their children in retirement, urban Taiwanese today are more likely to have their children and even grandchildren living with them, Wu said. That’s a reflection of declining wages among younger people. “In the cities in the 1980s and 1990s, the younger generation wanted to move out, but more and more people are living with parents again.”

Driving much of the change in Taiwan, as in Japan, is the shrinking number of young people relative to the elderly. Children 14 and younger account for only about one in five Taiwanese. In 2007, there were 7.2 Taiwanese workers for every retiree. By 2026, there will be only 3.2, according to a research paper, [“Financial Sustainability of Taiwan’s Social Security System,”](#) Wu published last year.

“It’s rare for a Taiwanese couple to have two children. A lot of Taiwanese women are more educated, and postpone marriage. In the economics department of my university, of the five or six female faculty members, only two are married, and they don’t have children.”

“Less-educated Taiwanese men sometimes have difficulty finding Taiwanese wives and often take brides from Southeast Asia,” he added. “Today, one in six Taiwanese births are now to such brides. Most babies in Taiwan are born to people who are not wealthy. In the rural areas people tend to have more babies. People

who live in urban areas often feel that they cannot afford to have children.”

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