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Chapter

11

The Fragmentation of the Old-Age Security System: The Politics of Pension Reform in Taiwan

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With the introduction of a new National Pension Insurance in 2008 and the pension annuitization of the Labor Insurance in 2009, the pension reform in Taiwan has set a milestone (with reservation) for the fluctuant reform process of the past 15 years. This chapter illustrates the politics of pension reform from 1993 to 2008, and delineates the driving forces behind the whole process. Emanating from the competition of political parties as a result of the democratization in the 1990s, old-age security has soon become an important political issue, with rivalling camps proposing diverse policies in order to appeal to specific electoral constituencies. This political dynamics has offset several attempts to integrate the pension schemes, which are further complicated by the vested interests within the fragmented institutional settings that resist any plan of radical overhaul. As a result, the pension reform has led to further fragmentation of an already

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status-segregated and occupation-oriented pension system, rendering the latter's future integration highly unlikely.

1. INTRODUCTION

Similar to South Korea, Taiwan has experienced democratization in the 1990s, which has fundamentally changed its political structures. A similar changing trend is also visible in the realm of social welfare, where Taiwan and South Korea have successively addressed different social problems by expanding their welfare programs in terms of broadening coverage and raising benefits (Ku, 1997; Kwon, 1998, 1999; Peng and Wong, 2008; Wong, 2004). The welfare expansion in Taiwan corresponds with the same dynamics currently undergoing in other East Asian countries, which has attracted increasing attention of social welfare scholars. The academic debates revolve around the issue of whether there is a distinctive East Asian welfare regime. Since then, students of East Asian social policy have been engaging in the comparative study of East Asian welfare states in order to find the salient features of this regional group (for an overview, see Ku and Jones, 2007). For example, Walker and Wong (1996) criticize the common association of "welfare state" with the capitalist–democratic projects prevalent in Western countries have automatically put the rest of the world out of sight. They argue that, if we merely concentrate on the state provision, we are likely to miss the peculiarities of East Asian states as regulators. Similar viewpoints are shared with Goodman and Peng (1996) as well as Kwon (1997), Goodman and colleagues (1998), Gough (2000), Holliday (2000), Hort and Kuhnle (2000) and Tang (2000), who point to the central characteristics of East Asian welfare regime in the emphasis on family welfare, status-segregated social insurance systems as well as corporate occupational plans for core workers. Scholars in this area converge in the opinion that the historical developments and institutional arrangements of East Asian welfare states do differ from that of their Western counterparts and therefore merit a closer investigation.

In general, these theoretical discussions have helped explain the institutional features of East Asian welfare states. For their empirical

relevance, Taiwan provides a good example. As a developmental welfare state, Taiwanese social security systems are well known for its productivist elements such as the marginal role of the state, reliance on the family, together with strong emphasis on occupation-based insurance schemes and means-tested benefits (Ku, 1997). Given these institutional characteristics, the Taiwanese welfare state has also witnessed dynamic institutional expansion in the 1990s that has tremendously altered its overall contour. The introduction of the National Health Insurance (NHI) in 1995 was the most prominent case in point, not least with regard to its universal coverage and cost-efficient medical provision (Ku, 1998). Indeed, the universalist approach of the NHI deviates from the traditional notion of the Taiwanese welfare state as a paternalist type that privileged certain social groups against the rest of the society in core policy fields, while eschewing welfare responsibility in other peripheral policy domains.

The same is true for the pension policy, which has undergone significant institutional changes in the past 15 years.[1] Nonetheless, if the NHI represents the most remarkable policy achievement in the history of the Taiwanese welfare state, the development of the pension policy in the 1990s that stretched well into the 2000s is a lacklustre policy field, where inherent interest conflicts and institutional contradictions have essentially precluded any integrated approach. It is true that, with the introduction of a new National Pension Insurance and the pension annuitization of the Labor Insurance (LI) in 2008, the pension reform in Taiwan has finally attained the accomplishment of comprehensive coverage, yet the overall institutional framework remains highly fragmented, with a number of occupationally segregated pension insurance or allowance schemes concurrently operating with various degrees of old-age protection. This outcome raises an important question of why the pension policy in Taiwan has failed to develop an integrated approach despite the arduous efforts of many involved actors. To answer this question, this chapter seeks to trace

[1]For a detailed discussion of theoretical reflections on aging and pension policies, see Shi and Ku (2009).

the political processes of pension reform from 1993 up to 2008, and offers a picture of the actor constellations within specific historical and political contexts that have important bearings on the policy development.

2. OLD-AGE SECURITY IN TAIWAN BEFORE THE 1990S

From the start, the institutional arrangements of old-age security were deliberately divided into two worlds. On the one hand, public old-age security was the privilege of certain occupational groups, whereas, on the other hand, the majority of the population could only expect little support of the state, if at all.[2] After its retreat to Taiwan, the authoritarian Kuomintang (KMT) regime adopted the "stick and carrot" strategy to consolidate its political rule over the island. While announcing martial law to tighten military and political control, the KMT government has successively established generous social insurance schemes for specific groups, among them not least the military servicemen, civil servants, and teachers (elementary schools and junior high schools), in order to ensure their political loyalties (Ku, 1997; Lin, 1994, 2006; Wong, 2004, pp. 43–61). The government established the LI in March 1950 to cover the manual workers employed in enterprises with at least 20 employees. By 1953, the LI program was extended to small firms with over 10 employees and fishermen, and to those working in even smaller firms with less than 10 employees on a voluntary basis. As the single social insurance bearer for the workers, the LI provided a package of benefits for work injury, old age, medical care, disability, death and maternity. In the same year, the Military Servicemen Insurance Program came into force, followed by the introduction of the Government Employee

[2]From a comparative perspective, this dual institutional arrangement (i.e., favoring productive labor force while ignoring dependents and the aged) is a typical feature of the East Asian developmental state. The idea of universal social welfare has been downplayed in order to boost rapid economic growth.

Insurance Program (GEI) in 1958.[3] Apart from the social insurance schemes for different occupational groups, the state has virtually done little to address its welfare responsibility for the rest of the population (such as the unemployed and housewives). For them, old-age security was largely a private issue left to the individuals and their families. Only for those elderly or households in adversity did the state render poor relief, yet even the scheme's coverage was kept low by means of its severe criteria for benefit entitlements.

Despite the introduction of several social insurance schemes, the total proportion of the insured population was low, estimated at about 32% in 1980. By and large, only core workforce was included in the social insurance, as the eligibility criteria were based on the membership of trade unions largely controlled by the state (Fu, 1993; Lee, 1992). And even within this category, a significant disparity existed regarding the distribution of benefits between the LI scheme and the schemes for civil servants and military servicemen. Whereas workers in the LI scheme could only claim a lump-sum pension payment on retirement (max. 50 months of the average monthly wages), old-age pensions paid to the retirees in the GEI scheme were much more generous — with the option of claiming pension annuities whose income replacement rate could reach as high as 90%. Moreover, the LI scheme stipulated that the insured persons had to choose between either old-age benefits or continued medical care after retirement, which has led many to waive their pension entitlements in exchange for medical care in old age. On the contrary, beneficiaries of the GEI scheme could enjoy both benefits without any restrictions. Last but not least, although the LI scheme granted pensions to workers reaching the retirement age of 60 with at least one year of insurance enrolment, its supplementary pension scheme set a much stricter requirement for supplementary pensions (aged 55 with at least 15 years of enrolment). The latter was a precarious condition for many workers once they switched or lost their jobs, especially for

[3]These two social insurance schemes also covered major risks as the LI scheme, albeit with much more lavish benefit levels.

those female workers who were under strain to strike a balance between work and family, as reflected in their patchy employment records.

The dual division of the state's welfare responsibilities for the population has persisted for decades, albeit in a different fashion. While the preferential treatment of military servicemen, civil servants, and teachers remains largely intact, the state has gradually expanded the coverage of social insurance to more occupational groups. As a response to a string of legitimacy crises in domestic and international affairs during the 1970s, the KMT regime initiated a series of social policy legislations, ranging from the legislation of the Children Welfare Act to the revision of the LI and the GEI schemes. The pace of social legislation has accelerated a bit in the 1980s, with several important policies being initiated, among them not least the promulgation of the Old-Age Welfare Act, Disabled Welfare Act and Social Assistance Act (Ku, 1997; Lin, 1994, 2006). These political endeavors, however, were more of a symbolic gesture. As Lin (1994, p. 184) noted, the total public spending on social welfare did not increase in the next two years following the legislation. Moreover, since the KMT regime perceived social policy merely as a means to bolster economic competition and political legitimacy, it demonstrated little readiness for comprehensive state involvement in social welfare. The overall architecture of the Taiwanese welfare state thus remained residual and fragmentary before the 1990s.

With respect to the old-age security for the workers, the LI scheme has seen some revisions since then, with the eligibility criteria adjusted and benefits improved. In the 1980s, the LI scheme opened its door to workers in small firms (five-plus employees), and increased the percentage of government subsidy for the monthly contribution of the self-employed from 30% to 40%. In 1984, the government further promulgated the Labor Standard Act as an amendment to the LI scheme. Compared to the latter, this new labor legislation has improved the prospect of old-age security for the workers, though the extent remained very modest. Indeed, it stipulated that employers had to make contributions to offer their employees pensions when they retired. Yet, in order to be entitled for occupational old-age pensions, employees had to work in the same company for at least 25 years or 15 years when reaching the age of 55. Apparently this was a high hurdle for most workers, since the majority of their employers were middle and small firms with an average corporate life of 12 years (Wu, 1997). The lack of any regulation on the portability of the entitlement to occupational pensions further disadvantaged the workers in case of employment changes. Besides, the initially targeted groups were mainly confined to the manufacturing industry, thereby excluding employees of other professions. Even among the manufacturing industry, the problem of noncompliance prevailed because the government failed to enforce the regulation effectively. It is thus little wonder that the Labor Standard Act has barely improved the old-age security of the workers (Fu, 2000, p. 236; Control Yuan, 2002, p. 235). This has paved the way for further political reforms leading to a new regulation on the introduction of personal accounts for the workers in 2004.

In sum, public responsibility for the old-age security before the 1990s was extremely skewed in favor of productive workforce, and focused especially on certain occupational categories. For decades, the authoritarian KMT regime has declined to establish a comprehensive social security system in general and universal pension institutions in particular for the whole population. In the name of promoting economic competitiveness, there was little concern over the social redistribution and solidarity. Policy progress did not come about until domestic and international pressures had jeopardized the regime's legitimacy. The institutional underdevelopment of public old-age security has persisted well into the end of the 1980s, leaving much room for later political maneuvre in the democratization process of the 1990s.

3. RISING POLITICAL MOMENTUM OF OLD-AGE SECURITY IN THE 1990s

The pension politics in the 1990s was directed by the party competition in the democratization process. While the KMT remained the ruling party during this period, its major foe, the Democratic

Progress Party (DPP), has gradually risen to political prominence, putting the former under pressure to keep its policy programs in pace. It was against this background that the issue of old-age security gained its momentum, bringing forth coverage expansion of public pensions to more population groups (Fu, 2000; Lin, 2005). It is noteworthy that although the DPP was the first to call for more attention to the old-age security, the party embraced this issue actually out of strategic calculation rather than normative conviction. Indeed, scholars have long pointed out that, from the very beginning, the programmatic distinction between the DPP and the KMT was less a result of the social cleavage but different political ideologies toward China (Lin, 2002; Wu, 2002). In nature, the DPP originated from the decade-long democratic movements during the KMT's martial rule, which have essentially framed its self-identity as a party striving for Taiwanese democratization and, ultimately, formal independence.

That said, the DPP has nonetheless successfully monitored the old-age security to become a popular theme, aware of the potential power of social welfare issues to draw votes across all political *couleurs*. Indeed, the unequal treatment of public social security toward different occupation groups has long been bemoaned. Especially in view of the preferential treatment of government employees and military servicemen, other occupational groups such as wage workers and peasants had received much less public support in social protection. This welfare inequality has rendered the DPP a unique opportunity to take political advantage (Fu, 2000; Lee, 1996; Yeh, 2006). The first victory dated back to the Legislative Yuan election of 1992, when a DPP candidate, Su Huahn-Dj, argued during his campaign that Taiwanese farmers should have the same entitlement to the old-age allowance (nearly NTD 5,000 monthly) as the mainlander veterans. With this tactics, Su won the election by an overwhelming margin. Witnessing that the issue of old-age security could swing the voters' mood, leaders of the DPP went on with the same campaign in the magistrate election of the Penghu County held in February 1993, where the DPP defeated the KMT again. These two election results have impressed all parties so much that the DPP

soon adopted the "old-age pension" (*laoren nianjin*) as a major policy issue in the Legislative Yuan (Lee, 1996). For the first time old-age security has become a policy with much political clout.

In the Legislative Yuan, the DPP submitted the first draft bill of the National Pension Insurance in April 1993, followed by several organized social movements in order to mobilize the public support for a nationwide pension program. The DPP legislative representatives and party members jointly formed the "Respect for the elderly pension action coalition", and launched, in collaboration with social welfare scholars and activists, several demonstrations in October. With the aim of winning the pending local magistrate election, all DPP candidates signed a "Pledge to grant old-age allowances" (*fafang jinglao jintie shiyueshu*), vowing to guarantee all elderly citizens over 65 a tax-financed allowance of NT 5,000 in the next year. Despite all these efforts, however, the election outcome this time did not yield so much advantage as the party had initially expected, though it did gain a 10% increase of votes from 31% to 41%.[4] And even though the DPP magistrates did keep their promises and began paying the elderly citizens old-age allowances in the respective counties, these measures proved unfeasible given the extremely difficult fiscal conditions of local governments.

In the mean time, under the pressure of the DPP, the KMT government also accelerated its pace to devise programs toward old-age security. As the ruling party, the KMT could still wield its administrative and legislative power to address this issue and countervail the DPP's offensive. On the one hand, it announced in July 1993 a new scheme "allowances for the poor elderly", only to be renamed as "allowances for the middle and low-income elderly" in October of the same year. The scheme was intended as a subsidy for those elderly in adversity. On the other hand, the Ministry of Interior established in November 1993 a research group responsible for outlining the contour of a national pension scheme (hereafter

[4] That is, the vote increase was not translated into the seat increase in the Legislative Yuan, as the number of elected DPPs representatives remained the same (six seats). See the analysis of Fu (2000).

MOI research group). The research group soon announced a preliminary plan of the National Pension Insurance, and submitted it to the Executive Yuan in February 1994. Parallel to the MOI, the Council for Economic Planning and Development (CEPD) was also authorized to design the pension program.[5] Since then, the CEPD has become the major designer of the National Pension Insurance (NPI) in the 1990s.

Initially, the CEPD proposed a two-tiered system in which the new NPI would function as a universal basic pension system, whereas the existing various pension insurance schemes for different occupational groups would supplement the respective old-age incomes (CEPD, 1995). For fear of the potentially excessive financial burden for the government, the CEPD favored social insurance as the organizational form of the new NPI: The employers and employees were to jointly make the most contributions, while the government refrained from comprehensive subsidy (maximal up to 20% of the overall expenditure). In essence, the CEPD attempted to sketch a roadmap that would incorporate the new NPI into the existing fragmented pension systems, which would ultimately be integrated with each other. When the CEPD submitted this plan in April 1995 to the Executive Yuan, however, the latter suspended the case worrying that any further discussion would stir political uproar due to the introduction of the National Health Insurance in the previous month. The postponement has left open political options of the institutional framework for the NPI, making room for later developments that essentially constrained any efforts to integrate the fragmentary pension systems.

The introduction of the old-age allowances for the elderly peasants in 1995 was a critical juncture that has altered the developmental direction of the overall pension reform (Lee, 1996). On the one hand, it has opened the door for later biddings to arbitrarily increase the level of allowances, as was the case in the 2000s (see analysis in

[5]Whereas the CEPD took charge of the overall institutional design, the MOI would now play a supplementary role in drafting the statutory stipulations. The dominant role of the CEPD was attributed to its higher administrative level, which made cross-departmental coordination possible.

the next section). On the other hand, it sent a warning signal to the KMT administration that the time was running out if they kept hesitant to establish a universal pension scheme. In 1996, the Executive Yuan instructed the CEPD to build a cross-departmental "National Pension Program Planning Group" (*guomin nianjin zhidu guihua zhidao xiaozu*) in charge of the design task for the overall pension institutions. The group followed the previous design drafted by the CEPD and the MOI, i.e., social insurance, but also emphasized the government's contribution to the premium. In other words, the idea stressed the parity relationship between contributions and benefit entitlements for the insured persons, while accommodating leeway for public support (by means of cash benefits) of those elderly already aged over 65.

Aware of the difficulty in the integration of various pension systems, the CEPD planning group suggested the idea of "separating the administration while unifying the essence" (*yewu fenli, neihan zhenghe*); that is, maintaining the ongoing various occupationally based schemes but harmonizing their institutional features and operations (Liu, 1997). Departing from this thought, the planning group proposed annuitizing the existing pension schemes, especially the LI, which had thus far paid lump-sum pensions to retired workers. The other proposal referred to the establishment of a new National Pension Insurance to cover those citizens who by far remained excluded from the existing pension schemes. According to this plan, insured persons of various pension schemes would receive a flat-rate basic pension (1st tier), topped up by earning-related supplementary pensions in the respective schemes (2nd tier). At this stage, the KMT government has decided to introduce the new NPI in 2000, despite the vehement protest of the business. The implementation of this plan was, nonetheless, abruptly interrupted by an earthquake in September 1999, which has critically altered the context of pension politics, and opened a new window of opportunity for further political maneuvre. In the face of the severe calamity devastated by the natural disaster, the KMT government announced the deferral of the scheduled introduction of the NPI. The pension politics has entered a new stage of developmental dynamics.

4. FLUCTUANT PENSION POLITICS IN THE 2000S

4.1. The New Political Context after the Millennium

In March 2000, the DPP won the presidential election and brought the decade-long power monopoly of the KMT to an end. Soon after the DPP came to power, the CEPD presented in August a new report envisaging two alternative plans. The first plan proposed the idea of individual accounts aiming at persons hitherto not insured by any current pension systems. Individuals would make contributions of 80%, whereas the state would shoulder the remaining 20% of financial responsibility. The scheme would be a defined-contribution system in which individual pension benefits depended on previous contributions. The other plan was a defined-benefit basic pension design that the overall pension expenses would be funded solely by tax revenues. The amount of pension benefits was set at a minimum of no lower than NT 3,000 (CEPD, 2000). This design echoed the "3-3-3 policy" the incumbent president Chen Shui-Bian had announced during the preceding presidential campaign.[6]

The proposed two plans soon encountered criticisms from the opposition, the KMT and the People First Party (PFP), which put into question the program's financial sustainability — especially that of the noncontributory pension benefits. Since the DPP was the minority in the Legislative Yuan, any program drafts it proposed would barely succeed without the consent of the opposition. Even the DPP cabinet members were divided in their policy preferences.[7]

[6]This policy outline promised welfare benefits to three subgroups: 1. Providing those aged over 65 with a monthly noncontributory allowance of NT 3,000; 2. Free medical treatment for children under three; 3. Housing loans at an interest rate of 3% for owners who bought their houses for the first time.

[7]As scholars have pointed out, the political cleavage in Taiwan is less the result of economic and social inequality but the difference in national identity. Aside from being an advocate for Taiwanese independence, the DPP has actually much in common with the KMT when it comes to promoting economic development at the expense of social justice. See Lin (2002) and Wu (2002).

In the face of the discontent of business groups over the welfare expansion of the ruling DPP, President Chen caved in and made it clear that he would lend support to economic development instead of social welfare. Amid this milieu, compounded by the growing signs of economic recession, the government announced the postponement of the introduction of NPI that had originally been scheduled to start in January 2001. This decision opened, once again, a new window of opportunity for the involved actors to influence the track of later policy development.

Despite this political impasse, the DPP administration remained active in the design of policy frameworks. In April 2002, the CEPD re-submitted to the Executive Yuan a draft proposal consisting of three plans for consideration (CEPD, 2002). In addition to the two plans previously proposed by the DPP administration, the third plan retrieved the social insurance plan put forward by the KMT government of the 1990s. After the cabinet meeting, the Executive Yuan announced its decision in favor of the plan of defined-contribution individual accounts, maintaining that this would incur the least financial burden for the government in the long run. However, the disclosure of this decision triggered fierce criticisms from the social activist groups, which feared that it would ultimately put the old-age security responsibility solely on the individuals' shoulders without any wealth redistribution and risk sharing among different population groups. Among the three plan proposals, the social activist groups clearly preferred tax-financed benefits or contribution-based social insurance to funded individual accounts for reason of the stronger element of social solidarity inherent in the former two options.

The National Social Welfare Conference held in May 2002 has become a watershed, whereby the social activist groups could garner support to roll back the government's decision. During the session, almost all participants from social activist groups and academics unequivocally took a critical stance toward the option of individual accounts, while advocating social insurance as the suitable one for future development. This has created a favorable ambience for the activist groups' appeal. Soon after the conference ended, the President

Chen met with an influential social leader, Liu Xia, in an effort to persuade her to accept the nomination as the president's policy advisor. During the meeting, the President gave his word to choose social insurance instead of individual accounts as the institutional framework of NPI (*United Daily News*, 23 May 2002). Against this background, the Executive Yuan had no choice but to follow the President's pledge, and changed its policy track toward social insurance. In order to keep the transitional cost as low as possible, however, the Executive Yuan envisaged the establishment of a separate social insurance scheme solely for those who remain excluded by any current pension schemes (the so-called *xiao guomin nianjin*; i.e., little national pension program).

Nonetheless, even at this stage the pension politics in Taiwan remained swamped in the contestation of different ideas and conflict of interests among the legislative, the administration and social activist groups with regard to the institutional framework of old-age security. Whereas bureaucrats of the Executive Yuan were principally concerned with the financial sustainability of the pension systems, the social activist groups lent support to the issue of social and generational justice. Once in the Taiwanese political arena, however, the ideal of deliberative democracy often gave way to the political logic of party competition and credit claiming; and this was precisely the nature of pension politics in the 2000s. This has often resulted in an inflationary spiral of political biddings to raise stakes in the allowances aimed at specific elderly groups instead of elaborate planning of the overall system from a long-term perspective. The sharp increase of old-age allowances for the elderly peasants was an example *par excellence*. Originally introduced in 1995, allowances for the elderly peasants soon became a popular pension policy, whereby no political party would risk being blamed for ignoring the well-being of this specific group. Time and again, this topic won popularity when political elections were approaching. The first move came in July 2003, when President Chen, in view of the pending presidential election in 2004, announced the increase of the allowances for the elderly peasants from NT 3,000 to 4,000. Not surprizingly, this

proposal passed almost in consent in the Legislative Yuan in the same year. Less than two years later, as a local mayoral election was due in 2005, President Chen proposed again to add another NT 1,000 for the elderly peasants. Though disagreeing on where to collect the budget, both government and opposition parties reached consensus that the allowances would be increased to NT 5,000 from 2006 on. A year later, in March 2007, the amount of the allowances was scaled up once again to NT 6,000 in the Legislative Yuan. As a result, the allowances for the elderly peasants have doubled within merely four years.

At the same time, various items of old-age allowances also came to fore. In 2003, the Legislative Yuan promulgated the "Provisional Regulation of Old-Age Welfare Benefits", which granted NT 3,000 benefits to all citizens aged over 65 except the military servicemen, civil servants and teachers. Despite its quasi-universal nature, this measure still evaded the question of how to integrate the fragmented pension schemes. Furthermore, the benefit policy has sapped the momentum of the overall pension politics, as legislation of further pension policy such as the NPI became less urgent now. Although in 2002 the Executive Yuan submitted several versions of NPI to the Legislative Yuan for consideration, they have actually been put aside without further consideration due to the notorious inefficiency of the Legislative Yuan. The only one session in which the proposals of the Executive Yuan were put on the agenda was in May 2003, and even that one failed to reach any consensus among the legislators. Most of their scepticisms centered on the financial sustainability of a separate social insurance for those excluded by current pension schemes. Yet, this issue was not given a priority due to its high political controversy. The result was a year-long stalemate until the end of term of those legislators in January 2005.

4.2. Remaking the Pension Policy Since 2005

In view of the difficulty to reach any conclusion in the legislation, which was further complicated by the diverse standpoints of the social activist groups, the Executive Yuan decided in 2005 to reconsider the overall framework of the NPI. The Executive Councillor (*zhengwu weiyuan*), Fu Li-Yeh, also a renowned social welfare scholar, was delegated to take charge of the policy reorganization. This has rendered the social activist groups a unique opportunity to take part in the policymaking process because Ms. Fu has had decade-long co-operation with these interest groups.[8] Initially Ms. Fu envisaged a two-tiered pension system consisting of a tax-financed basic pension and an earning-related pension insurance scheme, but she failed to realize her idea due to two reasons. First, the Council of Labor Affairs (*laogong weiyuanhui*) still resisted the proposal to broaden the coverage of the LI to those hitherto uninsured, insisting that the scheme was in itself coupled with the insured person's occupational status. Extending the coverage to any unemployed persons such as housewives or self-employed would contradict its original institutional features and jeopardize the overall financial viability. Second, in view of the public fiscal strain and population aging, it had become all too obvious that a pension scheme based solely on the basis of tax revenues would only lead to even heavier financial burden for the government.

Given these difficulties, Ms. Fu drafted a plan seeking to make a compromise. First of all, a separate social insurance scheme would be established, given that it was impossible to integrate current fragmentary pension systems. However, this new scheme would operate, together with the ongoing LI scheme, under the jurisdiction of the

[8]It is noteworthy that, at this stage, a discrepancy emerged among the social activist groups with regard to the funding of the NPI. On the one hand, the "Taiwan Labor Front" (*laogong zhenxian*) favored a two-tiered pension system with a tax-financed basic pension topped up by an earning-related pension insurance, maintaining that only this combination would assure sufficient old-age security; on the other, the "Handicapped Union" (*canzhang lianmong*), "Elderly Welfare Union" (*laoren fuli tuidong lianmong*) and the "Parent's Association for Persons with Intellectual Disability" (*zhizhangzhe jiazhang zonghui*) preferred instead a single-tiered social pension insurance scheme to any kind of tax-funded schemes, on the ground that the latter would be financially unsustainable.

Bureau of LI, in the hope that eventually these two schemes could be merged once the circumstances allow it.[9] This political compromise could hardly appeal to the social activist groups, who criticized the draft on the ground that it lacked precise actuarial estimation of future expenses, which would lead to heavy financial burden. Furthermore, they felt uncomfortable with the idea of a minimum pension benefit for every insured person irrespective of his/her contribution record, which would only aggravate the government's already weakening fiscal situation, and squeeze the available financial resources for those really in adversity. In short, the social activist groups did not object to a new pension insurance parallel to the LI, but demanded a well-elaborated institutional design that would eventually curtail the political logic of myopic credit claiming. Any future pension reform should follow the principle of social and generational justice and avoid arbitrary increase of old-age allowances. The establishment of a new pension insurance scheme as Ms. Fu envisaged should be, according to the social activist groups, coupled with the annulment of various current allowances for specific elderly groups.

Against this background, and in conjunction with the cabinet reshuffling of the DPP administration, Mr. Wan-I Lin replaced Ms. Fu as the Executive Councillor to take charge of the task and started the planning process all over again. This time, the social activist groups have gained even more leverage on the policymaking process because Mr. Lin, also a well-known social welfare scholar, shared with them the same idea that a universal pension insurance scheme according to the Swedish model would best fit Taiwanese welfare state.

[9]The calculation of pension benefits would be based on two methods: either a basic pension of NT 3,000 + number of pensionable years × monthly contribution × 0.6%; or a pension benefit calculated by the number of pensionable years × monthly contribution × 1.2%. The insured person could choose one of the two calculation terms, depending on which one would be more preferable. But in any case, the insured person could anticipate a minimum pension benefit of NT 3,000 whatever term he/she chose. Furthermore, the plan also granted the disabled or invalid persons a favorable status in that they could expect certain amounts of invalidity pensions based on the degree of disability or invalidity.

What was more was that, for the first time, the social activist groups have won a seat in the Legislative Yuan with their member, Mr. Rong-Chang Wang, being elected as the legislative representative. In collaboration with Mr. Lin, Mr. Wang proposed two drafts in the legislative session. The first one sought, once again, to broaden the coverage of the existing LI scheme to those citizens who have thus far no access to any existing pension schemes. Besides, the draft attempted to annuitize pension benefits of the LI, which had thus far been paid in lump-sum. Yet again, the idea of broader coverage met with firm resistance of the Council of Labor Affairs, who regarded the wage-earning workers as the only legitimate beneficiaries of the LI. The Council's superior administration, the Ministry of Interior, also stood behind the Council, for fear that this plan would drastically deteriorate the financial situation of the LI.

Unable to break through the blockage of the Council of Labor Affairs, Messieurs Wang and Lin turned to the other alternatives and proposed to introduce a separate national pension insurance scheme for those citizens excluded from existing pension schemes. The contribution rate was set at 6%, and scheduled to rise successively in the following years. Whereas the insured persons should share 60% of the payable contributions, the government would shoulder the remaining 40%. But in any case, the insured could demand a minimum pension benefit of NT 3,000 whatever term the beneficiary chose.[10] Though similar to the previous design proposed by Ms. Fu, the plan was different in one crucial respect that it has deliberately denied access of those already covered by other pension schemes, especially workers in the LI. In view of the diverse ideas and interests prevalent in the political arena, the establishment of a separate pension insurance scheme solely for these population groups has gradually become the most common denominator among different

[10] The calculation of pension benefits would be based on two methods: either a basic pension of NT 3,000 + number of pensionable years × monthly contribution × 0.55%; or a pension benefit calculated in accordance with the number of pensionable years × monthly contribution × 1.1%. The insured person could choose the better one out of the two calculation terms.

political camps. It was against this backdrop that the draft proposal of Messieurs Wang and Lin won wide support, and finally passed the three readings in the Legislative Yuan to become a statutory law in July 2007. Although the new scheme carried the title "National Pension Insurance", it covered only the peasants and socially disadvantaged groups, estimated at the number of about 3.5 million.

Yet, this policy direction was reversed again. In March 2008, the KMT's candidate Ying-Jeou Ma won the presidential election and terminated the eight-year rule of the DPP. Vowing to protect the welfare of the elderly peasants during his presidential campaign, the new president has instructed the Ministry of Interior to revise the National Pension Insurance. In June 2008, the Executive Yuan passed the draft proposal of the Ministry of Interior, allowing the workers to join the NPI without any restrictions (*United Daily News*, 13 June 2008). Furthermore, the draft intended to decouple the allowances for elderly peasants from the NPI in order to quench their anger at possible benefit cutbacks were they to join the NPI. Table 11.1 summarizes the differences in benefits between the Peasant Insurance and the NPI. These revisions, however, have *de facto* undermined the original intention of the NPI to cover population groups thus far excluded from other current pension schemes. Detaching the elderly peasants from the NPI would automatically weaken the solidarity basis of the latter because, in the end, only socially weak groups (unemployed, housewives, etc.) would remain in the new scheme. Social welfare scholars and activist groups were upset by this revision, and sought alliance to put pressure on the KMT government to stick to the original plan. However, the KMT has mobilized its members in the Legislative Yuan to approve this revision in July, which came into force from October 2008 on (*United Daily News*, 18 July 2008).

4.3. Revisions of the LI and Labor Standard Act in the 2000s

Parallel to the discussion of the NPI, opinions requesting the reform of the Labor Standard Act were simmering at the political arena.

Table 11.1. Comparison of the Benefits between the Peasant Insurance and the National Pension Insurance.

Peasant insurance		National pension insurance	
Benefit items	Benefit level	Benefit items	Benefit level
Childbirth benefit	NT 20,400	Childbirth benefit	None
Invalidity benefit	Lump-sum payment according to the disability degree (between NT 10,200 and 408,000)	Invalidity pension benefit	Severely disabled benefit: monthly contribution × 1.3% × contribution years (minimum NT 4,000 per month, paid lifelong)
Burial allowances	NT 153,000	Burial benefit	NT 86,400
Survivor's benefit	None	Survivor's benefit	1. In case of death of the insured person before 65: monthly contribution × 1.3% × contribution years (minimum NT 3,000 per month) 2. In case of death of the insured person after 65: half amount of the old-age pension or disabled pension
Old-age pensions	Old-age allowances NT 6,000 per month for peasants over 65	Old-age pensions	Pension for the insured over 65: (monthly contribution × 0.65% × contribution years); (minimum NT 3,000 per month)

Source: Compiled by the authors.

As analyzed above, it has been widely recognized that the Law itself could hardly accommodate the old-age security of the workers: Lump-sum pensions failed to cover the financial risk of old age; rigid requirements of an employment record of at least 15 years in the

same company simply ignored the fact that most firms in Taiwan had barely existed for over 15 years. Frequent job switches of the employees, accompanied by the noncompliance of the employers, have undermined the effectiveness of the Law to institutionalize an additional tier of old-age security for the workers. During the 1990s, consensus has emerged among scholars and policymakers that the overall statutory regulation was in need of a fundamental reform (CEPD, 2000; Control Yuan, 2002; Tsai, 2008; Wu, 1997). Correspondingly, legislation in this respect has also gained momentum during this period, starting from the supplementary pension program drafted by the Council of Labor Affairs in 1997.

In contrast to the complicated politics unfolded in the policy-making of the National Pension Insurance, the overhaul of the Labor Standard Act in terms of meliorating the prospect of old-age security for the workers has received wide recognition. Given the incomplete statutory regulation of the Labor Standard Act, political discussions were less concerned with the necessity of revision but with how to revamp it toward a more feasible framework. Here the disputes revolved around the proportion of the financial responsibility to be shared between employers and employees. The state has deliberately refrained from any financial engagement in this issue. Similar to the case of the National Pension Insurance, the reform of the Labor Standard Act equally involved government branches with different perceptions and preferences that shaped the whole process (Yeh, 2006). The CEPD took a strong stance in favor of economic development and investment, thereby supporting the introduction of individual accounts on top of the current LI. On the contrary, the Council of Labor Affairs sympathized with the situations of the workers, and tended to stress more financial responsibility on the part of the employers. Statutory pension insurance has thus become a favorite option for the Council. While each side had its supporters from the capital and labor respectively, the political process was loaded with sharp conflicts between trade unions and employer associations.

During the confrontation, the concern of the trade unions related to the incomplete old-age security of individual accounts for the workers; they were also worried about the low contribution rate on the part of employers. To substantiate old-age security for the workers, they contended that only social pension insurance with a higher contribution rate of employers could proffer a bright prospect (*United Daily News*, 26 May 2004). On the contrary, the employer associations stressed the potential financial burden on the shoulders of many firms, and sought to limit the employers' responsibility for the old-age security of workers. Despite their concession to bear the 6% contribution rate as envisaged in the new scheme, the employer associations insisted on a progressive approach; that is, gradual adjustment of the contribution rate for employers from 2% to 6% in several years (*Economic Daily News*, 8 January 2004). After several months of disputes, in the end, the two sides reached a compromise, enabling the draft to pass the Legislative Yuan in June 2004. The new supplementary pension scheme (Labor Pension Act) for the workers was set to start in July 2005.

Under the new regulation, all employers are required to deposit 6% (or more) of a worker's monthly payrolls into an individual pension account managed by the Bureau of LI (Council of Labor Affairs, 2004). In addition to the mandatory employers' contribution, workers may make voluntary contributions at a maximum 6% of their monthly payrolls to individual pension accounts. To encourage this, the regulation stipulates corresponding tax deduction for the voluntary contributions. The institutional design of individual pension accounts has also introduced several innovations: 1. Minimum pension guarantee from individual pension accounts. While the accumulated pension amounts may vary with investment performance in the financial markets, with the statutorily guaranteed minimum rate workers would eventually receive their pension payments consisting of the accumulated contributions and collected dividends equivalent to the interest paid for a two-year fixed term deposit from a bank. 2. The accounts are portable and valid in the case of job switches or firm shutdown. This has essentially reduced the risk of losing pension rights on the part of workers. 3. Survivors or designated beneficiaries of a deceased worker who died prior to pensionable age are eligible to receive a lump-sum payment from the deceased worker's pension account. Table 11.2 summarizes the advantages of the new supplementary pension scheme as compared to the old one.

While establishing the supplementary pension scheme for the workers, the Council of Labor Affairs (2006) also turned its attention to the pension annuitization of the LI. This effort resonated with the long discussions over the shortcomings of the old regulation, which culminated in the conclusions reached by the participants in the National Social Welfare Conference held in May 2002 to reform the pension benefit of the LI. Widely accepted was the idea to grant annuities instead of lump-sum payments, as well as the introduction of survivor and disabled pensions. Between 2002 and 2006, the Council held several public hearings and planning meetings to draw up a draft, which was finally passed in the Legislative Yuan in July 2008 and was set to launch in January 2009. Together with the introduction of the National Pension Insurance, the government acclaimed the pension annuitization of the LI as a hallmark for the old-age security in Taiwan.

Essential improvements comprised of the introduction of pension annuities for workers aged over 60 with an employment record of at least 15 years.[11] The calculation of pension annuity is based on the employment duration as well as the average monthly wages of the applicants. That is, one can either choose the formula: average monthly wages × 0.775% × contribution years + NT 3,000, or the other one: average monthly wages × 1.55% × contribution years. The new regulation also remunerates workers with more favorable pension calculation if they decide to retire beyond 60. For those who have worked less than 15 years, there is only the option of a lump-sum pension benefit; however, these persons are then entitled to join the National Pension Insurance to cover their old-age financial risk.[12]

[11] The following illustration of relevant regulations in the Labor Insurance is based on the introduction of the Bureau of Labor Insurance of 5th August 2008. Retrieved in May on http://www.bli.gov.tw.

[12] In this case, a worker can also choose to have his/her pension entitlements in the Labor Insurance accredited in the National Pension Insurance, or vice versa.

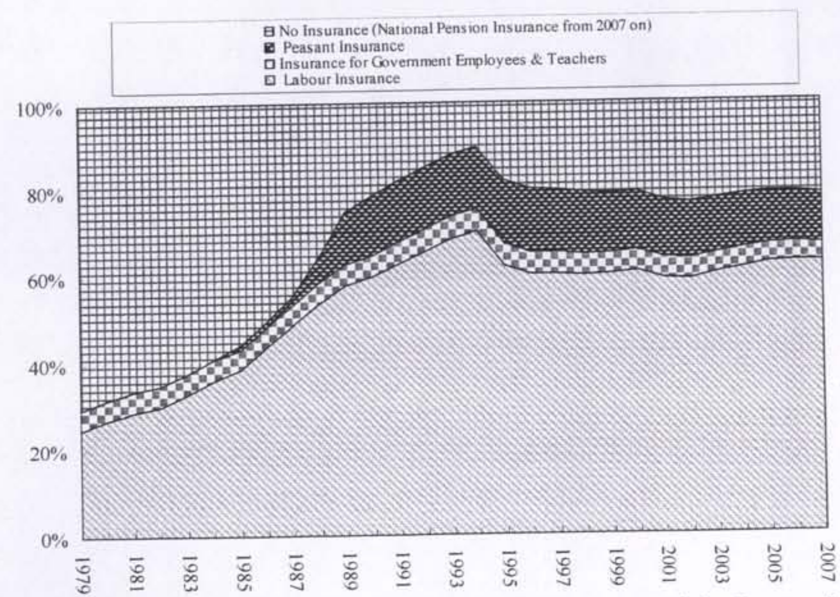
Table 11.2. Comparison of Old and New Supplementary Pension Schemes for the Workers.

Statutory basis	Labor Standard Act	Labor Pension Act
Administration	Central Trust of China	Bureau of LI
Financial principle	Defined-benefit	Defined-contribution
Pension account portability	Non-portable. Entitlements are limited to continual employment in the same firms	The accounts are portable and will be retained even if workers switch jobs or if firms are shut down or cease their operations
Entitlement conditions	Work seniority of 25 years or having worked 15 years and reached 55 years of age	Reach the age of 60, regardless of working or retired; if deceased before reaching 60, family survivors or designated beneficiaries may claim
Pension form	Lump-sum payment	Lump-sum payment or annuity
Pension calculation basis	Average wage (6 months prior to retirement) $[(1-15 \text{ years}) \times 2 \text{ units} + (16\text{th year} - x \text{ year}) \times 1 \text{ unit}] \leq 45 \text{ units}$ 1 unit = one average monthly wage	Monthly wage (determined by the table of monthly contributions for labor pension) Accumulated principal and accrued dividends of the pension account (Contributed wages) × (6%) × (12 months) × (work seniority) + accrued dividends
Employer contribution	Flexible calculation: based on 2–15% of worker's monthly payroll	Employers are required to deposit 6% (or more) of a worker's monthly wages into an individual labor pension account
Worker contribution	No mandatory or voluntary worker contribution is provided	Workers may voluntarily contribute additional sums, maximum 6% of their monthly wages to their pension accounts. The extra contributions may be deducted from their total annual income tax

Source: Introduction of the Bureau of LI, Council of Labor Affairs, April 2005.

In addition to old-age pensions, the new amendment also introduces disabled and survivor pensions for invalid or surviving dependents of the deceased workers. In case of invalidity, the workers can expect an annuity calculated according to the formula (average monthly wages × 1.55%), with a minimum guarantee of NT 4,000 per month. As for the surviving families of the deceased workers, the new regulation also envisages a survivor pension based on a similar calculation formula (i.e., average monthly wages × 1.55%), but no less than NT 3,000 per month.

These measures have undoubtedly mended the loophole of the old system and improved the prospect of old-age security for the workers. Indeed, together with the introduction of the NPI, the Taiwanese welfare state has eventually established various pension insurance schemes covering the whole population. As Fig. 11.1



Source: Author's own calculation based on the Annual Report 2007 of the Bureau of LI. Data are retrieved on http://www.bli.gov.tw/en/.

Fig. 11.1. Change in the coverage of various pension insurance schemes (1979–2007).

shows, this accomplishment has become the most distinctive characteristic of the pension reform. But notwithstanding, one should not overrate the overall progress. Indeed, the public support of old-age security for general workers remains limited compared to that for civil servants, military servicemen and teachers, reflected in the fact that employers and workers are still the major contributors in the LI with meagre government subsidy involved in the financing. Thus, even though the rectification of the LI marks an advance in the field of pensions for the workers, it has contributed little to the institutional integration of the pension insurance systems that would close the gap of old-age security between different occupational groups in Taiwan.

5. CONCLUSION: BETWEEN INSTITUTIONAL LEGACY AND POLITICAL COMPETITION

Institutional design of social protection can be a tricky process, and the pension politics in Taiwan precisely manifests this precarious political nature. During the 15-year discussions, almost all possible institutional frameworks have been elaborated, ranging from tax revenues, social insurance contributions, to individual saving accounts. And yet, the overall achievement in the end is rather ambivalent. It is true that the past decades have witnessed several progresses: the establishment of a new pension insurance scheme which covers socially disadvantaged population, the introduction of a supplementary pension scheme for the workers, and the pension annuitization of the LI, together with the introduction of several tax-financed old-age allowances for specific groups. Yet, as a whole, the fragmented pension institutions remain uncoordinated, rendering any future endeavor to integrate the whole system a very tough task. Put all these pictures together, and the conclusion draws near: Instead of evolving into a universal pension system, the pension reform in Taiwan has actually entrenched the fragmentation of the pension schemes. This trend has gained further thrust with the recent plan of the incumbent KMT government under President Ying-Jeou Ma to

decouple the old-age allowances for the elderly peasants from the NPI, which has been approved by the legislators. This policy reversal would surely sabotage the original goal of the new pension insurance scheme to terminate the endless spiral of raizing old-age allowances for specific groups such as the elderly peasants.

The perplexing phenomenon of the pension politics in Taiwan is that, despite deliberative democratic participation of social and political elites, the pension policy has been unable to establish an overarching institutional framework that would solve the problem of fragmented pension schemes. Even though all the involved actors were well aware of the merits of an integrated pension system, the policy result still fell on the opposite side. This is not to say that there has been a void of excellent ideas and thoughtful discussions during the policymaking process. Indeed, the incessant efforts of social welfare associations and scholars have heaved pertinent ideas of social justice and generational solidarity to certain political height, and consensus has emerged with regard to the advantages as well as disadvantages of different institutional designs. Nonetheless, in critical times, these have failed to gain enough political momentum to contend with other rivalling ideas and interests.

With hindsight, two major factors were at play. The first and foremost was the competition of political parties as a result of the democratization in the 1990s (Fu, 2000; Lee, 1996; Wong, 2004). While the emergence of the old-age security as a political issue was undoubtedly the result of the DPP's attempt to find an arena where it could rally more support, this strategy backfired when the KMT joined the game and gradually took lead in the planning and promulgation of national pension insurance schemes. In an attempt to overtrump its opponent, the DPP turned to the issue of old-age allowances for specific groups, only to trigger even more generous countermoves of the KMT afterwards. As the analysis of this chapter shows, the competition of the two major parties turned nasty as each side rushed to raise stakes in the old-age allowances without careful consideration of the eventual gloomy consequences. Party competition has resulted in a vicious circle whereby rational articulation of institutional design gave way to myopic policies that merely sought to appease the interests of specific electoral constituencies.

In the mean time, fragmented pension institutions tend to have self-reinforcing effects on the politics of pension reform. The existence of various pension schemes have created vested interests that render subsequent radical reforms extremely difficult (Bonoli, 2000; Pierson, 1994; Tsai, 2008). Each attempt to integrate the pension schemes failed to reach the goal due to the resistance of institutional stakeholders. Among them, the most notable hardliner was the Council of Labor Affairs, who repeatedly refused to make concessions to any kind of proposals that would merge the LI with other pension schemes. Especially when it came to broadening coverage or introducing the new NPI scheme, the Council of Labor Affairs gave no hint of readiness to compromise, for fear that the inclusion of socially disadvantaged groups would endanger the fiscal shape of the LI. Furthermore, the Council has developed a clear institutional self-identity in mind regarding the LI, believing that the scheme was supposedly confined to wage-earning workers. According to this logic, other population groups had little to do with the LI, and should be categorized to the respective pension schemes. Given these institutional constraints, pension reform in Taiwan thus tended to be piecemeal, as large-scale overhaul of the entire pension system was proved politically unfeasible.

To conclude, the pension reform in Taiwan has vividly illustrated how competition of political parties has entrapped the existing fragmentation of pension institutions, and how these given institutional settings have constrained the repertoire available to the political actors. Indeed, in this sense it has become a testimony to what the institutionalism refers to as path dependency, denoting the dimension of institutional continuity in the course of time; as well as what the democratization thesis indicates as the logic of political competition, suggesting the responsive nature of democratic politics. In his comparative study of the health politics in Taiwan and South Korea, Wong (2004, p. 159) concludes that "democratic

accountability makes actors responsive to societal demands, and agenda setting is therefore the function of consensus building". While this has been the case in health care reform, the same argument seems less tenable in Taiwanese pension reforms. Consensus building has actually turned out to be the trickiest part of the overall policy, with a number of political and societal actors involved in the process without necessarily leading to optimal policy outcomes. Although civil society groups have extensively forged cross-class coalitions in the policymaking process, and they have at times even influenced the policy direction; yet their efforts all floundered on the institutional barrier of entrenched veto players, nor could they brake the competitive biddings among political parties for old-age allowances. If the institutional and political logic continues to prevail, which seems very likely, the Taiwanese pension system would have to continue tackling the coordination problems of fragmented pension institutions.

The interplay of institutional constraints and democratic political competition is set to have profound implications for the quest for social cohesion in Taiwan. In the case of old-age security discussed in this chapter, democratization during the 1990s has set in motion an increasing demand for the inclusion of more societal members in the protection of public old-age insurance, leading to progressive policy developments in terms of broadening coverage and upgrading benefits. However, the turbulent policymaking process in the last 15 years has also demonstrated the difficulty of unifying the hitherto divided pension institutions with the new ones, as well as the problem of curtailing the competitive logic of democratic politics. Both forces have tended to countervail political endeavors, which sought to strengthen the institutional viability of the pension system in response to the increasing quest for social cohesion in the field of old-age security. The major challenge to the governance in the pension policy in Taiwan lies in how to strike a delicate balance between the institutional legacy and the political competition in order to establish a more sustainable pension system.

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