



Challenges of Longevity Risk to the Pension Security in Taiwan

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Outline

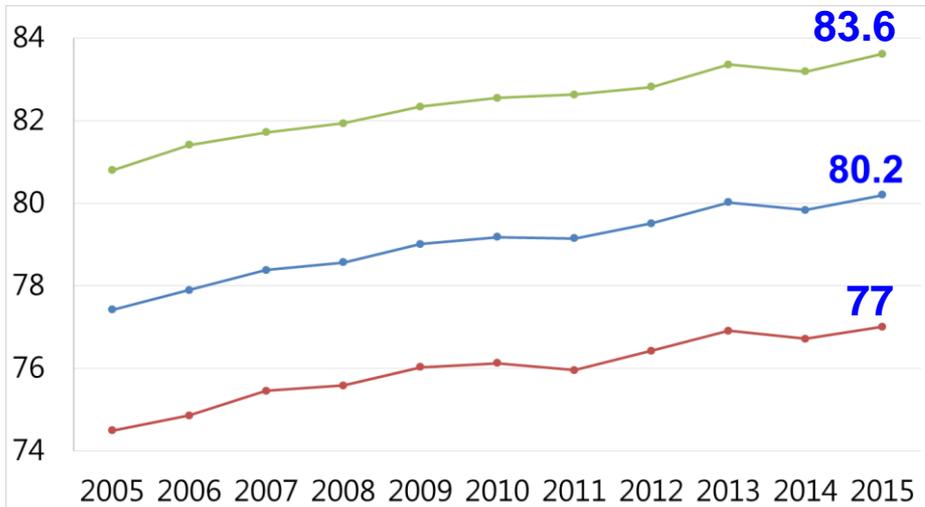
- **Changing population structure**
- **Impacts of demographic ageing on pension systems**
- **Recent pension reforms and government policies**



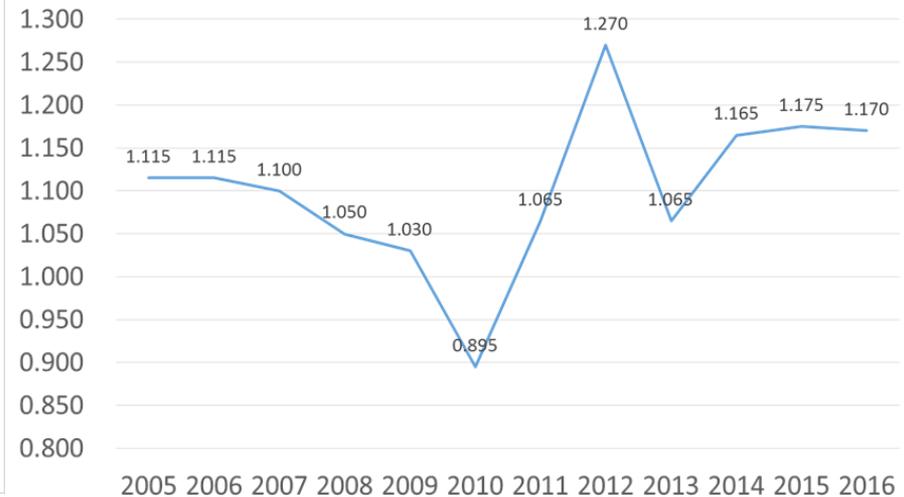
Changing Population Structure in Taiwan

- **Current life expectancy in Taiwan:**
total population: 80.2 years; male: 77.0 years; female: 83.6 years
- **The fertility rate has been low and dropped to 1.17 in 2016.**

Trend of Life Expectancy in Taiwan



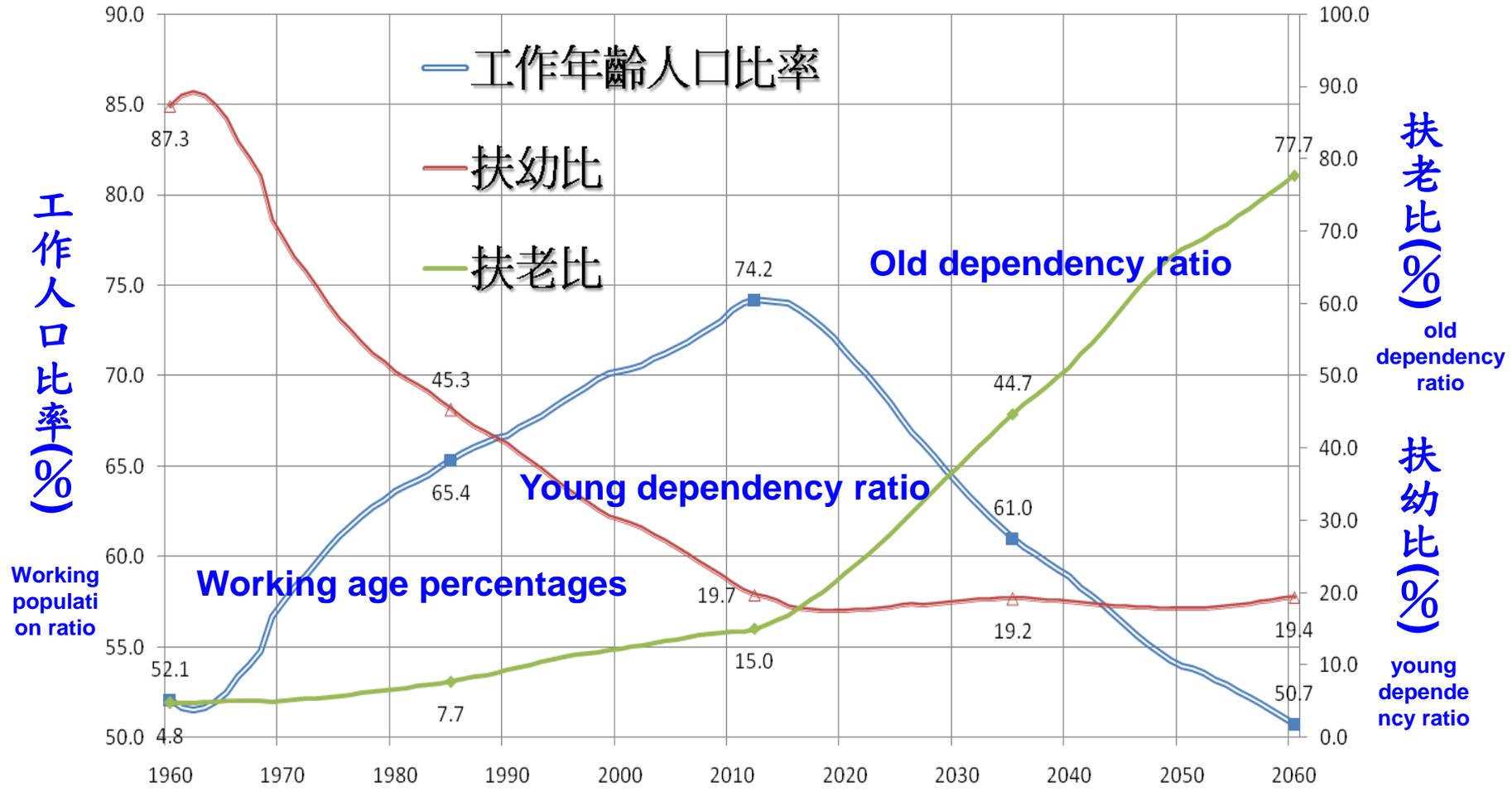
Trend of Fertility Rates in Taiwan





Working age percentages, child dependency ratios, aged dependency ratios

Taiwan working population start to begin declining in 2015.

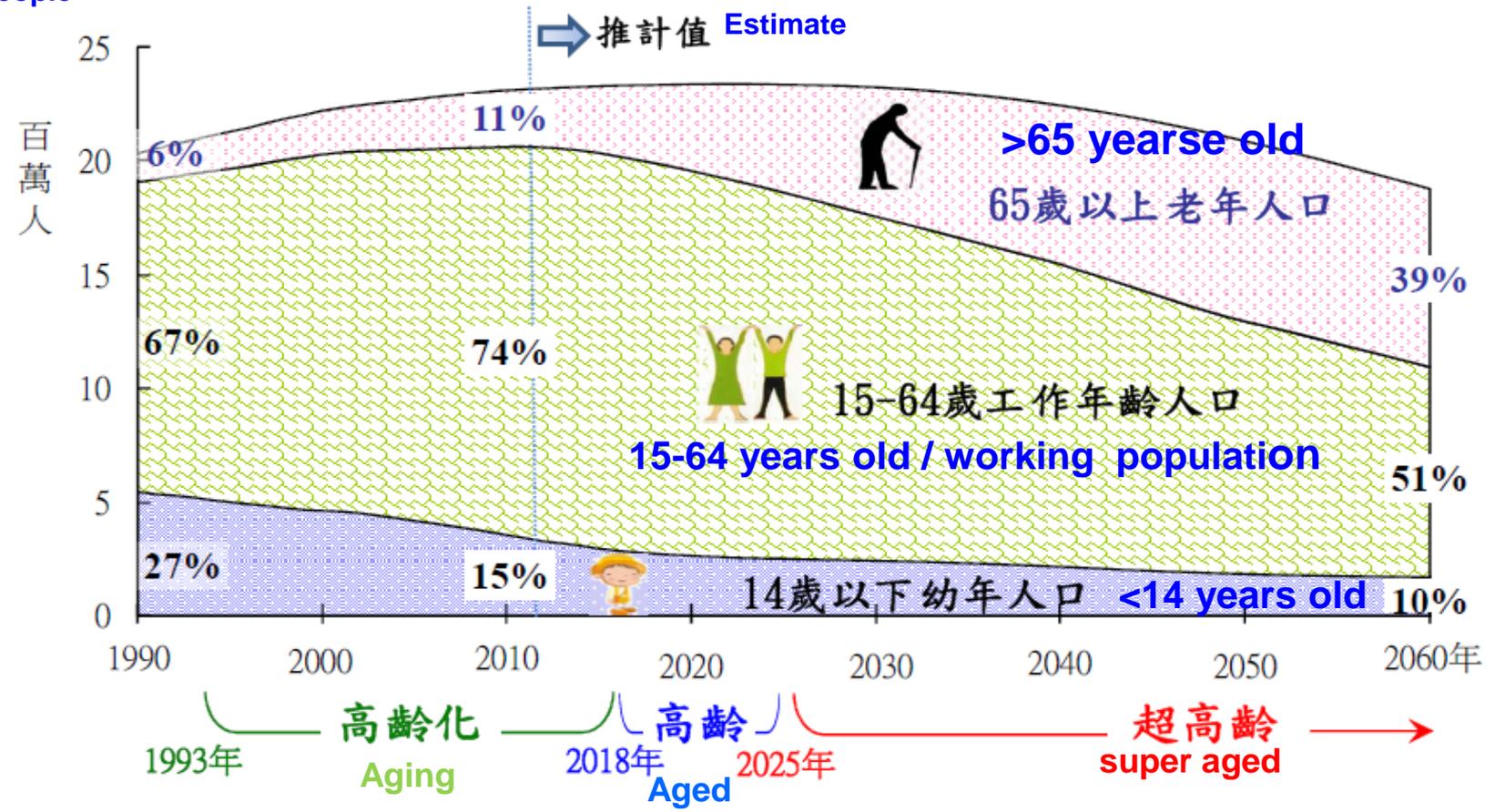




Changing Population Structure in Taiwan

■ According to the statistics from Ministry of the Interior, old age seniors accounted for 13.2 percent of the total population in 2016. This figure is expected to rise to 20% in 2026, and 39% in 2060.

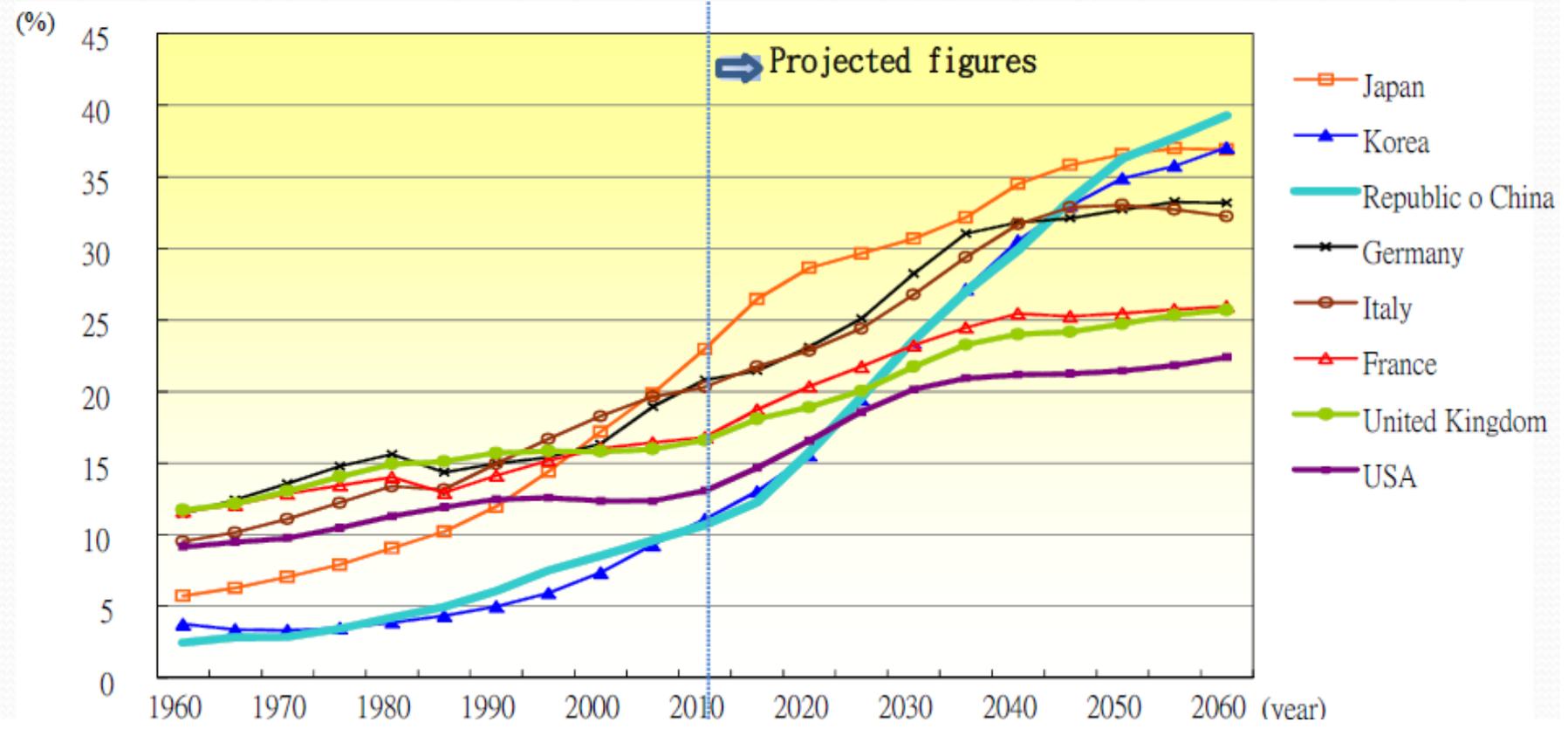
Millions of people





Elderly Population as Proportion of Total Population

- From 1960 to 2015, the proportion of Taiwan's total population aged 65 years and over has been similar to that of Korea, and less than that in the other countries listed in the graph
- In 2060, the proportion of the total population that is elderly in Taiwan, Japan, and Korea will be higher than that in the other countries listed in the graph





Demographic ageing is faster in Taiwan than other developed nations.

Taiwan's elderly population has doubled in just 24 years, compared with 50 years in other nations, which means Taiwan has only half the time to respond.

Percent of population aged 65+

Time to double (years)

Country 國別	到達 65 歲以上人口比率之年次					倍化期間 (年數)		
	7%	10%	14%	20%	30%	7% → 14%	10% → 20%	20% → 30%
Taiwan	1993	2005	2018	2025	2040	24	20	15
Singapore	2000	2010	2016	2023	2034	16	13	11
S Korea	2000	2007	2017	2026	2040	17	19	14
Japan	1970	1985	1994	2005	2024	24	20	19
China	2001	2016	2026	2036	-	25	20	-
USA	1942	1972	2015	2034	-	73	62	-
Germany	1932	1952	1972	2009	2036	40	57	27
UK	1929	1946	1975	2026	-	46	80	-
Italy	1927	1966	1988	2007	2036	61	41	29
Sweden	1887	1948	1972	2015	-	85	67	-
France	1864	1943	1979	2020	-	115	77	-

Source: Council for Economic Planning and Development



Impact of demographic ageing on Taiwanese society

Longer life

- The average lifespan in Taiwan increases by an average of 0.13 years annually.

Higher medical costs

- Average annual medical expenses for the elderly in Taiwan (NT\$80,000-100,000) are triple the national average.

Higher dependency ratios

- Dependency ratios in Taiwan are rising steadily, placing an increasingly heavy burden on the young.

Greater need for long-term care

- Disabled population rising by 20% per year. Long-term care will become increasingly important.



Funding shortfalls in Taiwan's pension funds in 2016

Table 1

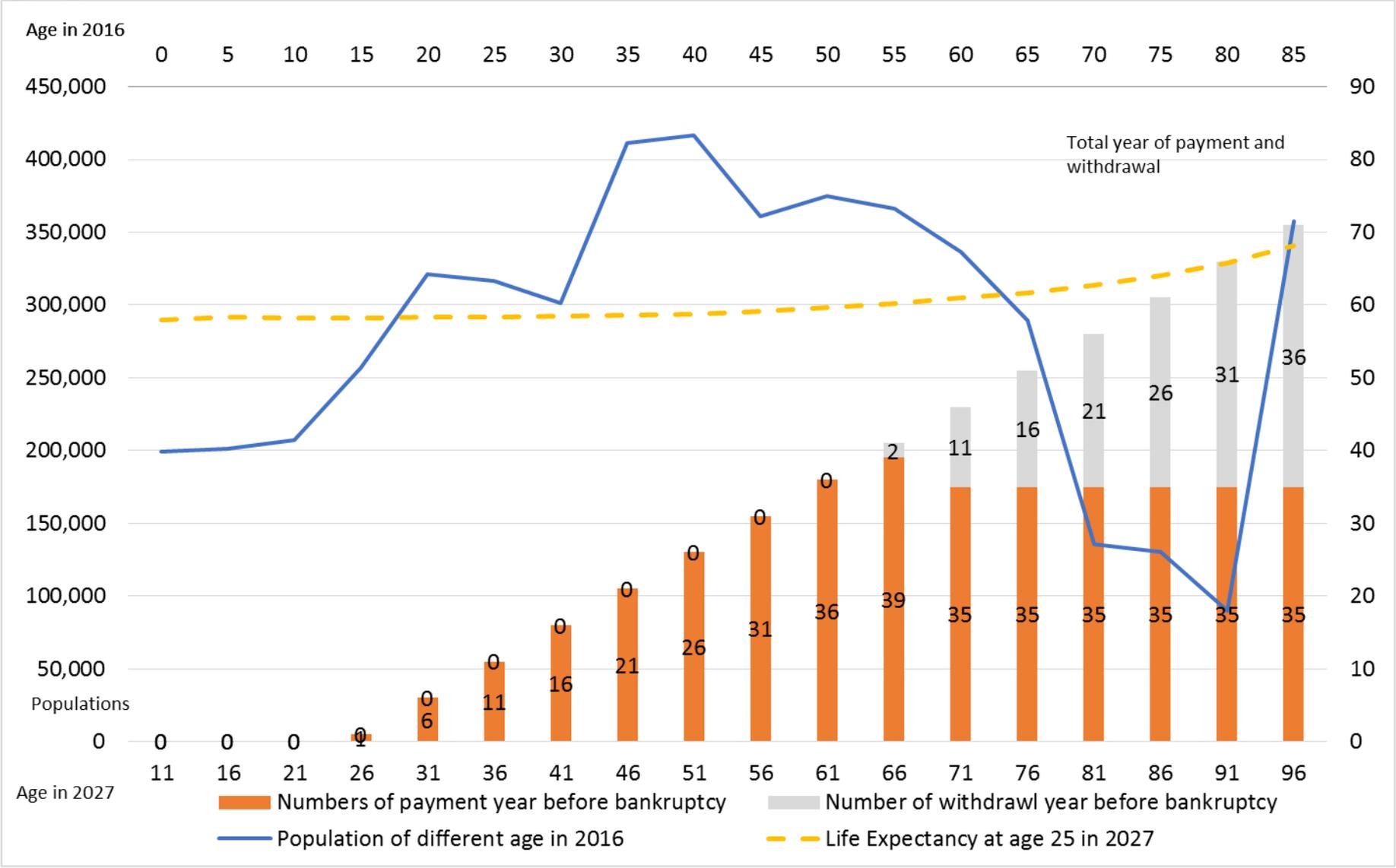
Year of expected insolvency	
Labor Insurance	2027
National Health Insurance	maintain solvency for 2-3 years.
Military category of the Public Service Pension Fund	2018
Education category of the Public Service Pension Fund	2027
Public Service Pension Fund	2029

Hidden debts of the central and local governments

Old military, civil service, and teaching pensions	NT\$6.9 trillion
New pension systems	NT\$1.5 trillion
Labor Insurance	NT\$4.5 trillion
Government Employee and School Staff Insurance	NT\$181 billion
Farmers' Health Insurance deficits and unpaid benefits	NT\$126 billion (not counted)
Unpaid compensation for expropriation of existing roads	NT\$2 trillion+ (not counted)
Payouts due under National Health Insurance, Labor Insurance, Employment Insurance, and 18% interest	NT\$166 billion 1.
Total	NT\$13.3 trillion



The Payment and Withdrawal Situation of the insured at different age in Labor Insurance





Pension Reform in Taiwan (2017)

- ❑ Existing systems face very big challenges, including funding shortfalls and inequitable treatment of people in different occupations and age groups. Reforms must be undertaken as soon as possible.
- ❑ Discussions have focused on five broad topics: income replacement rates, insurance premium rates, benefit payment conditions, pension fund investments, and the responsibilities of the government.



Pension Reform on Government Employee and Public Service Pension

- The legislation has increase the retirement age to 65 starting in 2026 for all civil employees.
- The legislation also set maximum level of replacement rates to reduce benefit payments.
- The contribution rate will increase from 12% to 18% .

Replacement rate before and after pension reform

working years	30-40 years
Before pension reform	
Government Employees Insurance (DB)	8-10%
Public Service Pension System (DB)	60-70%
Total Replacement rate	68-80%
After pension reform	
Retirement age	65 years old
Government Employees Insurance (DB)	8-10%
Public Service Pension System (DB)	52-62%
Total Replacement rate	61-72%



Pension System Reform on Labor Retirement System in Taiwan

- The government will start to subsidize funding the labor insurance and slightly reduce the benefits in the this reform.

Replacement rate before and after pension reform (Same working year)

Starting working age	30-40 years
Before pension reform	
Labor Insurance (DB)	45-60%
Employment Insurance (DC)	15-22%
Total Replacement rate	60-83%
After pension reform	
Retirement age	65 years old
Labor Insurance (DB)	43-58%
Employment Insurance (DC)	15-22%
Total Replacement rate	58-80%

Note: The assumption of initial wage is 25,000 and the growth rate of wage is 1%.



More Defined-contribution Pension Schemes in Taiwan

- Labor Pension become defined contribution plan in 2005. By offering tax breaks, we encourage laborer workers to increase their voluntary contribution rates (max 6%) under the private pension to build up their retirement savings. The policy is discussed to provide more investment choices under member choice platform.
- The Private School Employee Benefit and Savings Trust system was launched on 1 January 2010.
- Two-tier pension system currently in planning stage to for government employee and public service pension fund to supplement retirement benefits.



More Support from Financial Markets

- Pension funds are an important source of investment capital in financial markets.
- We encourage financial services firms to actively develop innovative new products that meet the needs of pension investment and the retirement saving .
- Funding shortfalls at pension funds will generate increased demand for retirement products and insurance protection.
- We encourage financial institutions to develop high-quality guaranteed and non-guaranteed products including domestic and offshore mutual funds, insurance products, and trust products of help people plan ahead as early as possible for retirement.



Future Retirement Market

□ Group Annuity Market

Member investment choices under employer DC pension plans

- Private university DC pension
- New Labor Pension DC Scheme
- Government Employees' and School Staffs' Insurance (GESSI) second-tier DC schemes

□ Individual Annuity Market

Demand for individual annuity is raising significantly.

□ Long-term Care insurance Market

With active promotion, long-term care insurance contracts in force rose significantly. It is expected to be double-digit growth in 2015.

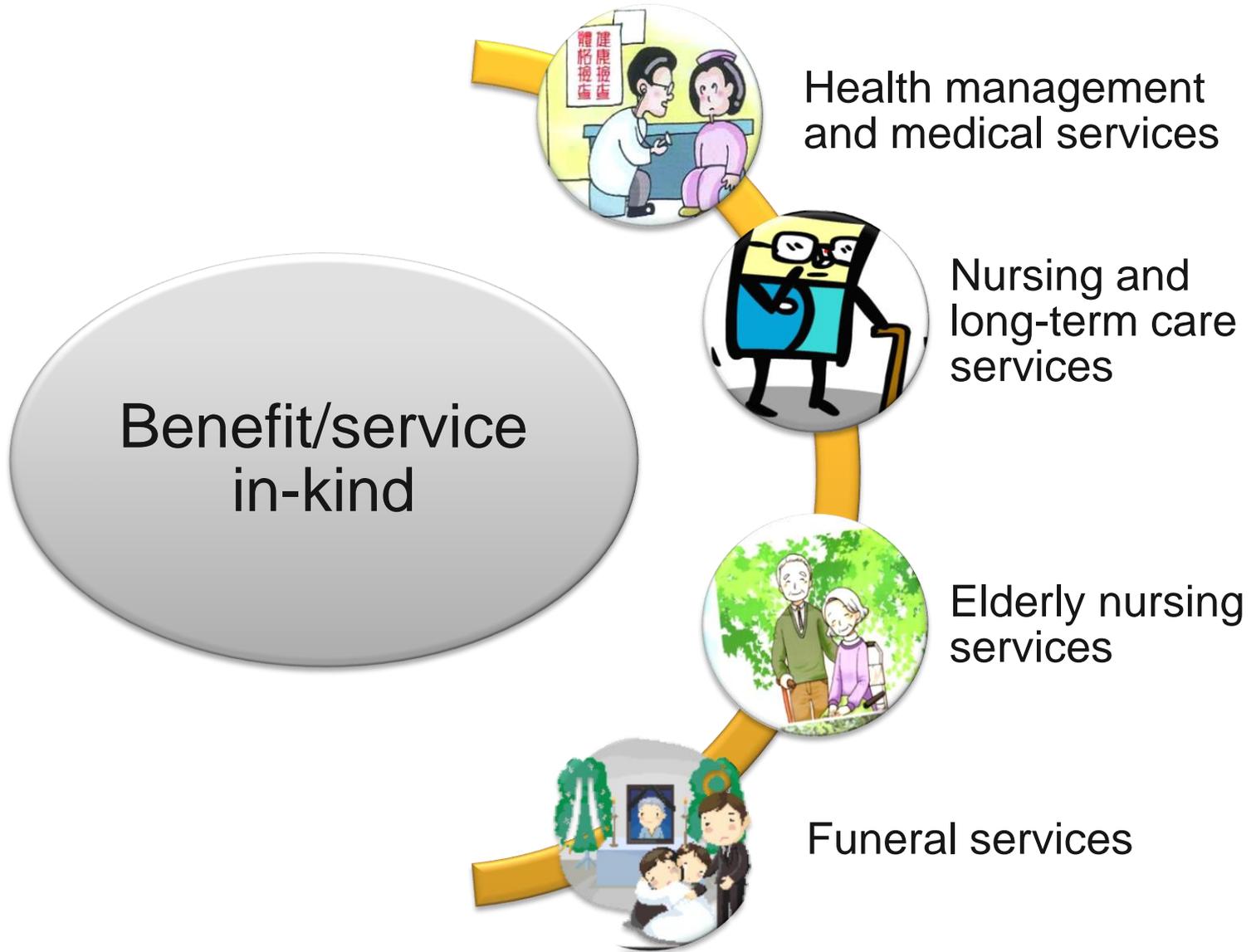


Innovative Retirement Products

- Reverse mortgages
- Target-date funds
- Variable annuities with guaranteed benefits(GMXB)
- Foreign currency interest-sensitive annuities
- Integrated retirement accounts
- Enhanced annuities
- UBI innovative insurance products
- Variable-benefit long-term care products
- In-kind-benefit LTC Insurance Products



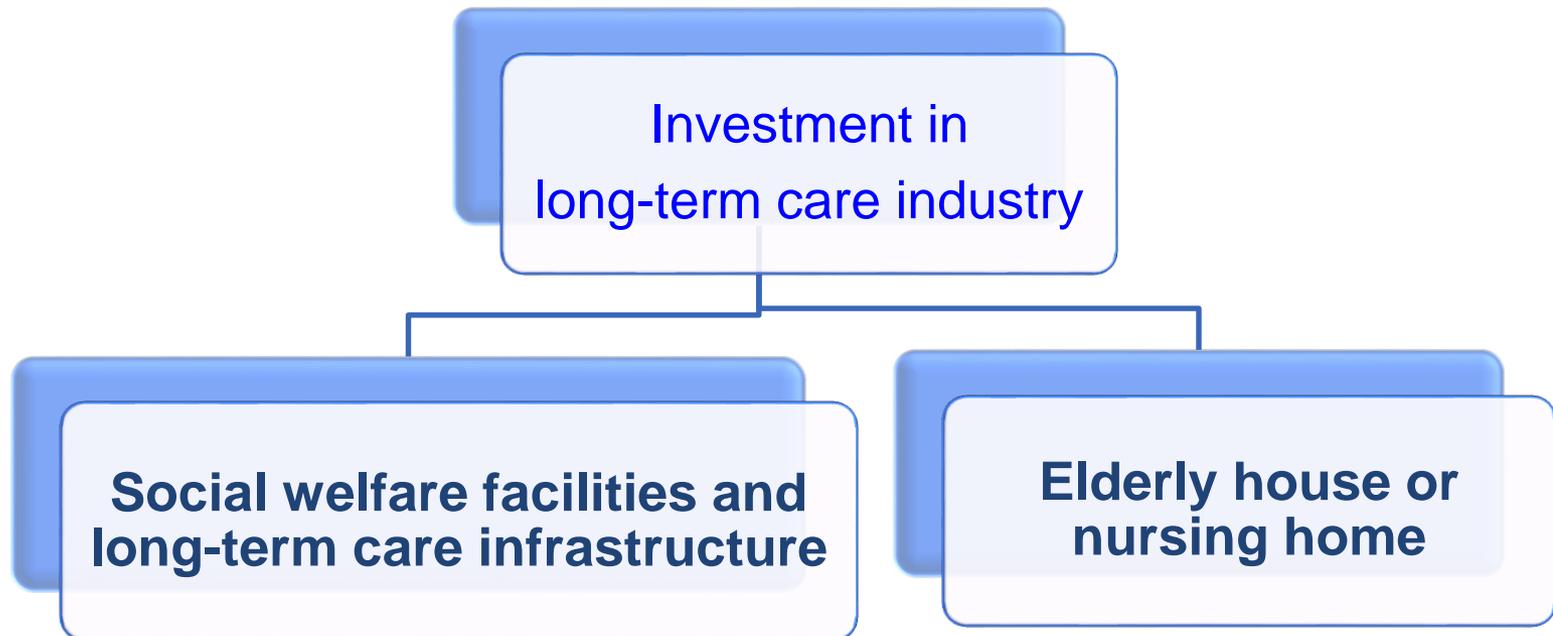
In-kind-benefit LTC Insurance Products





Encourage Insurers to Invest In Long-term Care Related Industry

- Encourage insurers to participate in long-term care service industry.
 - invest in the long-term care infrastructure, including both physical facilities and nursing systems.
 - invest in long-term care industry and use such investments to support development of their long-term care insurance products.





Tax Incentives for Retirement Products

- The Financial Supervisory Commission and the Ministry of Finance have discussed to devise suitable tax incentives to encourage consumers to buy more insurance for retirement.**
- By offering more tax incentives of annuity and long-term care insurance products, FSC encourages consumers to start their retirement savings as early as possible.**
- The tax incentives includes:**
 - Long-term care Insurance premium deduction.**
 - Establish tax-qualified deferred annuity system.**



Conclusion

The most important objective of reform is to improve population structure, decrease the shortfall of pension funding and enhance the financial retirement investment environment.

We need establish a platform for self-directed investment into defined-contribution pension and individual retirement saving in order to spur financial and insurance markets.

We need to educate the importance of personal retirement planning and raise public awareness of the need for retirement saving and purchasing insurance protection.



***Thank you for
your attention!***

