Insurance programs need reform

THE RULING AND opposition parties have agreed on a national pension program to replace stipends for the elderly starting next year.

In the course of debate spanning a decade, the DPP often made the “national pension program” out to be a groundbreaking contribution to social improvement and an excellent benefit for the individual. This was all for the purpose of attracting votes, since the hoopla made people forget the several public insurance systems already in place and the contributions they have made to income security for the elderly.

Many recommendations for reform of the public insurance system from academics, government agencies and others, have been shelved just because the new system is about to go into effect. Debate on the national pension program has continued to revolve around the same old topics, leaving hardly any scope for discussion of reforms to the present system.

Take labor insurance, for example. Begun in 1950, it was Taiwan’s largest comprehensive public insurance system. Labor insurance, with its own pension system, was no less important to the people of an industrial society than Is a national pension program. With a labor insurance

CHOU LI-FANG

周麗芳

system involving so many people and so much capital, and with insurance systems for farmers, the military, public servants and others, is another system really necessary? Whether each of these systems should be completely replaced or retained as supplements to the new system merits consideration.

The labor insurance system was introduced at a time when there were fewer workers and lower average life expectancy, and when family networks were still intact. Given the changing realities of an industrial and commercial society, it has become necessary to reform the regulations governing the system. These reforms to labor insurance and senior citizen pensions are long overdue and should be identified as:

1. Replacing lump-sum payments with monthly payments. Public insurance shouldn’t be resold or mortgaged by the user. The lump-sum payment method, however, can be easily used as a business start-up fund for oneself or one’s children. And even if the lump sum is put in a term deposit, guaranteeing it against the ravages of inflation in coming decades remains difficult.

2. Limiting the age for pension eligibility. Since pensions are an extension of salary earned during one’s working life, only the elderly or unemployed should be entitled to payments. Pension payments should not, however, be based solely on how long you’ve been working or how long you’ve been buying insurance.

3. Lowering the threshold for company exemptions. Currently companies that employ less than a certain number of people are exempted from compulsory insurance policies. Such thresholds should be lowered and the reach of the program expanded. Compulsory insurance should apply to actual employment regardless of the company size.

4. Installing an annual payment system for family members of insured persons, in case of death. The existing payment system for family members should be changed to annual installments, in sync with the monthly pensions. Qualifications for receiving such annual payments should also be changed.

When the national pension program was first proposed, it was in fact intended as a guarantee for those people not covered under the existing insurance system. A complete payment system for family members will accomplish this.

5. Establishing a financial management mechanism. Pension payments for the elderly should be separated as an independent item under the comprehensive public insurance system, in order to avoid over-drawing on reserve funds for the elderly. A financial management mechanism should be formally announced so as to resolve the problem of the massive potential debt (nearly NT32 trillion).

6. Clarify the difference between pension payments under the labor insurance scheme and those under the Labor Standards Law; check whether it is really necessary for government agencies to impose it as a compulsory measure; and to face the fact that Labor Standards Law pensions are inadequately allocated.

The several existing forms of public insurance are not on their last legs and in the short term there is no cause for concern about bankruptcy. It’s important that insurance for workers, farmers, the military, public servants and teachers all respond to the changing times.

Chou Li-fang is an assistant professor of finance at National Chengchi University.