Controversy over Public Service Retirement Privileges

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Retired public service employees–including military personnel, civil servants and teachers–have been notified that the strict limits, set by the previous government, on retirement savings carrying preferential interest of 18 percent have been removed. They were told that they could return their retirement savings back into the high-interest deposits. The preferential retirement savings system was launched in 1959. Back then Taiwan's economic environment was poor and military officers, civil servants and teachers received only a meager pay. Furthermore Taiwan's old-age security system was incomplete. Lacking a legal basis, the government launched the preferential savings deposits as a stop-gap measure, paying an interest rate of at least 18 percent to safeguard the livelihood of public service employees after retirement. At the time market interest rate were hovering above 10 percent so that the interest subsidies for the preferential savings deposits put only limited strain on government finances. Also since Taiwan was under authoritarian rule back then, the public did not dare to openly complain against the measure.

Fiscal Resources Concentrated on Specific Groups

Since in the democratic era civil servants' welfare is paid from taxpayers' money, it is only natural that these payments are subject to democratic oversight. Society at large resents the 18 percent preferential savings deposits, because the interest is paid from extra government subsidies. When the government's limited fiscal resources are concentrated on specific groups, this will of course trigger controversy about the wrong allocation of government resources. Secondly, in comparison the sense of deprivation among those who don't enjoy retirement privileges is strong. While public service employees get 18 percent interest on their retirement savings, salaries and wages have been contracting in recent years, sometimes even shrinking so much that we now have the problem of "working poor."

Figures by the Directorate-General of Budget, Accounting and Statistics (DGBAS) show that 3.6 million people, or 45 percent of all employed workers, earn monthly salaries of less than NT$30,000. These include 1.04 million people who make less than NT$20,000 per month. But in contrast as many as 20 percent of the some 400,000 retirees with preferential retirement deposits have savings of more than NT$2 million. These retirees don't need to work a single day per week, but earn more than NT$30,000 in preferential interest payments on their deposits per month.

Interest Subsidies Drain Government Coffers

The subsidies paid by the government to bridge the gap between the market interest rate and the preferential interest rate are putting a heavy strain on government finances. Figures from the Bank of Taiwan, which pays the interest differential on behalf of the government, show that in fiscal year 2010 the government paid NT$78.1 billion in interest subsidies.[1] In 2015 these subsidies are estimated to increase to NT$100 billion. And the central government's final accounting report for fiscal year 2009 shows that by the end of the April of 2010 governments at all levels will owe the Bank of Taiwan interest subsidies worth NT$38.6 billion. With the amended preferential deposit system the fiscal burden of the local governments will increase by NT$3.3 billion every year, aggravating the fiscal situation of the local governments, whose debt has already hit the ceiling set in the Public Debt Act.

Unless the retirement system is reformed, government finances will collapse under the huge pile of debt. DGBAS figures also indicate that obligations from three old-age security systems–the old Public Service Pension, in place before June 30, 1995, the New Public Service Pension Fund, and the Civil Servants and Teachers Insurance–amount to hidden debt worth NT$5.79 trillion.[2] Since accounting for pensions is on accrual basis, this hidden debt has already been incurred. Public debt as revealed by the government totaled NT$4.47 trillion as of year-end 2010. But the government's debt statistics don't include its pension payment obligations. If included, the government's debt will be more than doubles.

If the public service pension system is

not reformed, the government will quickly near financial collapse. The number of public service employees who qualify for preferential retirement savings–including already retired and future retirees–totals as many as 840,000 people. Since the blue (KMT) and green (DPP) political camps are in a neck-and-neck race for voter support, both have scruples about reforming the pension system. They are afraid of losing votes should the reforms trigger protests from the 840,000 public service employees and their families.

Retirement Privileges Trigger Political Controversy

After the 18 percent preferential interest system triggered massive public complaints and became highly politicized, President Ma Ying-jeou declared that the law would be amended to correct the flaws of the pension system. The Ministry of Service Personnel, which is in charge of pension policy, also changed its tune saying that the pension calculation formula under the new system is not ideal, because it grants certain "special cases" such as former vice presidents Lien Chan and Lee Yuan-tsu additional interest payments of more than NT$100,000, in what is widely seen as unfair. Subsequently blue camp lawmakers pointed fingers at politicians who served in the former DPP government, accusing them of criticizing the preferential savings, while on the other hand pocketing the fat interest themselves. At the same time the amount of these interest payments was made public. After being attacked DPP Chairwoman Tsai Ing-wen declared that she would close her pension account and no longer draw the 18 percent interest payments. Public opinion put the political upheaval over Tsai's reception of preferential interest payments in the same league with the scandal over former President Chen Shui-bian's misuse of a state affairs fund and Ma's alleged mishandling of public funds as Taipei mayor.

Given the government's current fiscal situation and the foreseeable pension burden, the day will come when the government will face an untenable financial situation, unless the Public Service Pension System is reformed. And there is no doubt that certain privileges must be cancelled such as counting years served as political party official toward the total years of service as public service employee or preferential interest savings accounts for retired senior lawmakers. The reform process is sure to trigger resentment and protests from those with vested interests, putting to test the electorate's wisdom and the resolve and courage of political leaders from the ruling and the opposition parties for reforming the system. TB

[1] The Bank of Taiwan figures show that the government shouldered NT$65.6 billion, whereas the Bank of Taiwan shouldered NT$12.5 billion. But since the Bank of Taiwan is government-owned, the burden from the interest subsidies will affect its ability to pay profits to the treasury. Therefore these payments are de facto the government's burden.

[2] In the coming three decades governments at all levels need to earmark budgets to pay pensions worth NT$7.7195 trillion under the old Public Service Pension Fund System (the New Public Service Pension Fund System was implemented July 1, 1995). If NT$817.9 billion that had been earmarked by the end of 2009 are subtracted, the governments still need to shoulder NT$6.9016 trillion in coming years (not factoring in the discount factor). Of the total, the central government needs to pay NT$3.6486 trillion (including NT$783.8 billion for civil servants, NT$802.7 billion for teachers, and NT$2.0621 trillion for military personnel), whereas local governments need to bear NT$3.2530 trillion. As of Dec. 21, 2009, not yet paid pensions under the New Public Service Pension Fund System – that is hidden debt – totaled NT$1.9821 trillion. If NT$452.5 billion that have already been appropriated for the pension fund are subtracted, pensions that have not yet been paid out total NT$1.5296 trillion. As of Dec. 31, 2009, the present value of the government's pension obligations from the Civil Servant and Teacher's Insurance (before May 30, 1999) totals some NT$181.1 billion for the coming 35 years.