

Sustainability and Equality of Taiwan's National Pension Insurance Based on Premium Payment Behavior

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Outline

- Introduction to National Pension Insurance (NPI)
- Study of NPI members' Premium payment behavior
- Comparison of the demography and socio-economics in the classified premium payment behaviors
- Equality and financial sustainability of NPI
- Conclusions

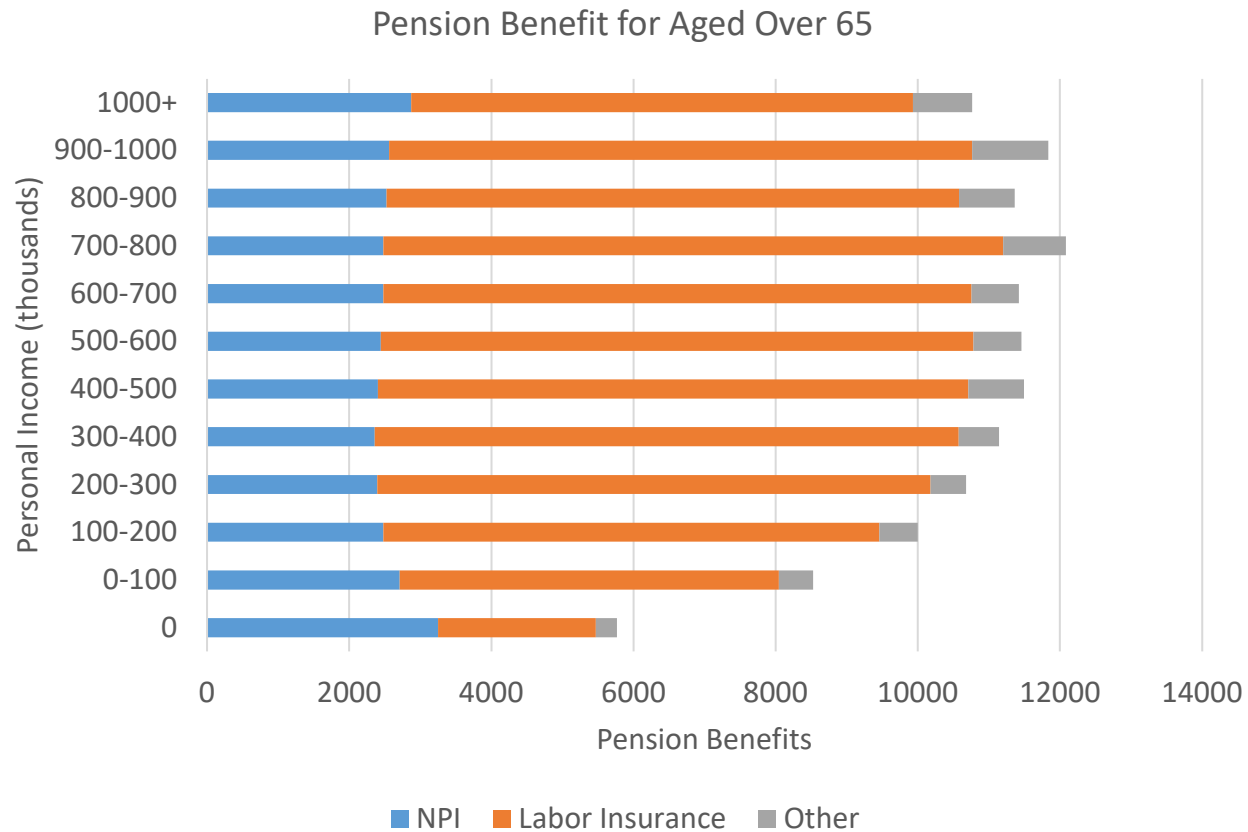
National Pension Insurance

- There was an occupational-oriented public pension system before 2008
- Exception for non-working citizens
- Since 2008/10, the NPI was implemented by the Ministry of Health and Welfare (MHW)
- Citizens, aged 25 to 64, qualified automatically, as long as unemployed.
- Defined Benefit (DB) with guaranteed monthly pension payment at 65
- Addition lump-sum payment for maternity and death, and pension benefits for surviving family members and disabled citizens
- “Final Piece” of the first pillar of the Public Pension System in Taiwan

National Pension Insurance

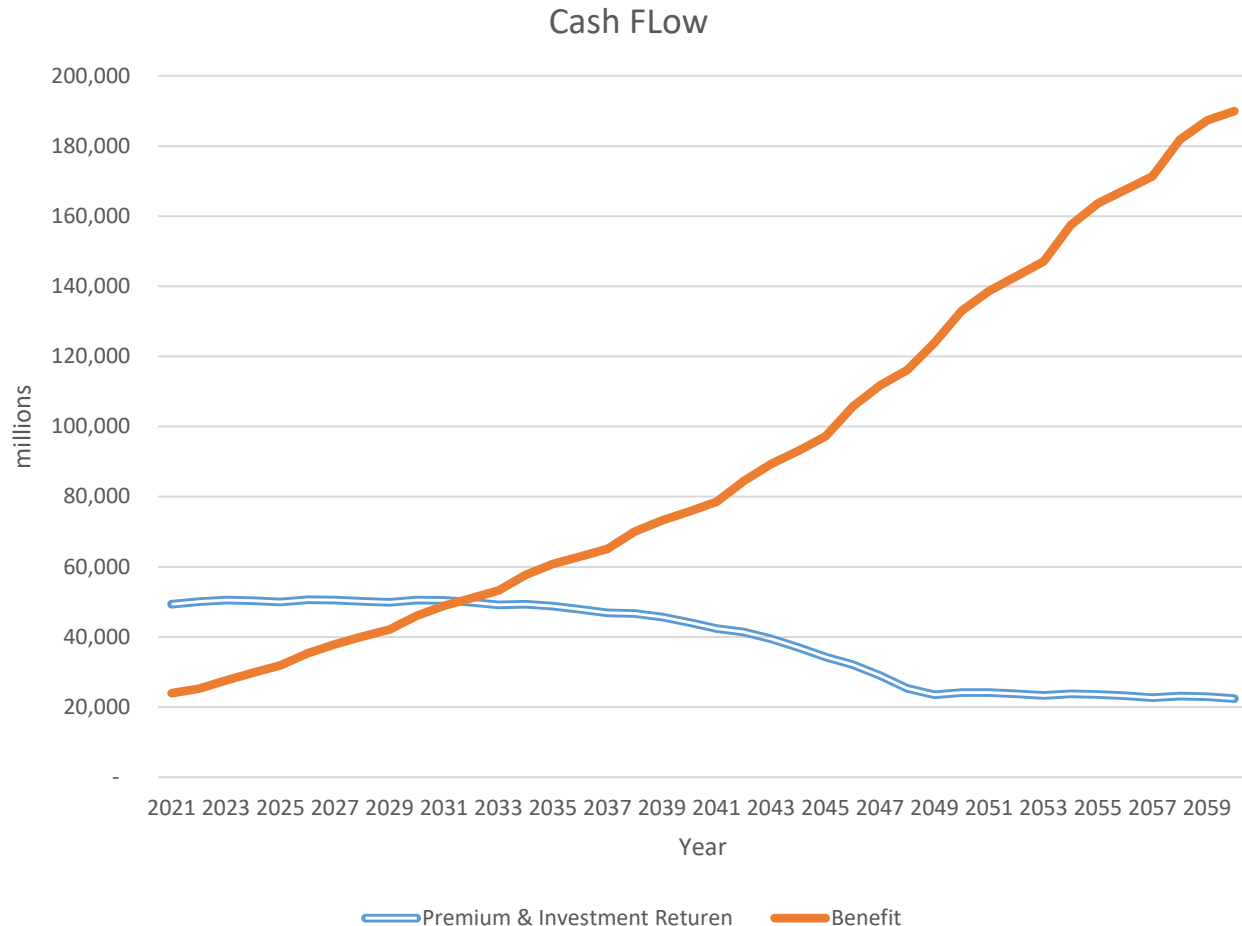
- Free to choose to pay premiums (voluntary; not mandatory)
- Current Premium: \$1,737 NTD per month (rate = 9.5% * MIA = 18,282)
- Government subsidizes 40% to 100% of premium for poor or disabled.
- Pension benefit depends on the Premium paid
- Average Monthly Pension Payment: \$3,764 NTD per month
- Over ½ population was qualified in NPI since 2008/10
- 3 million qualified citizens in 2021
- The 2nd large public pension insurance in Taiwan

Comparison of pension benefits among NPI, Labor Insurance and others



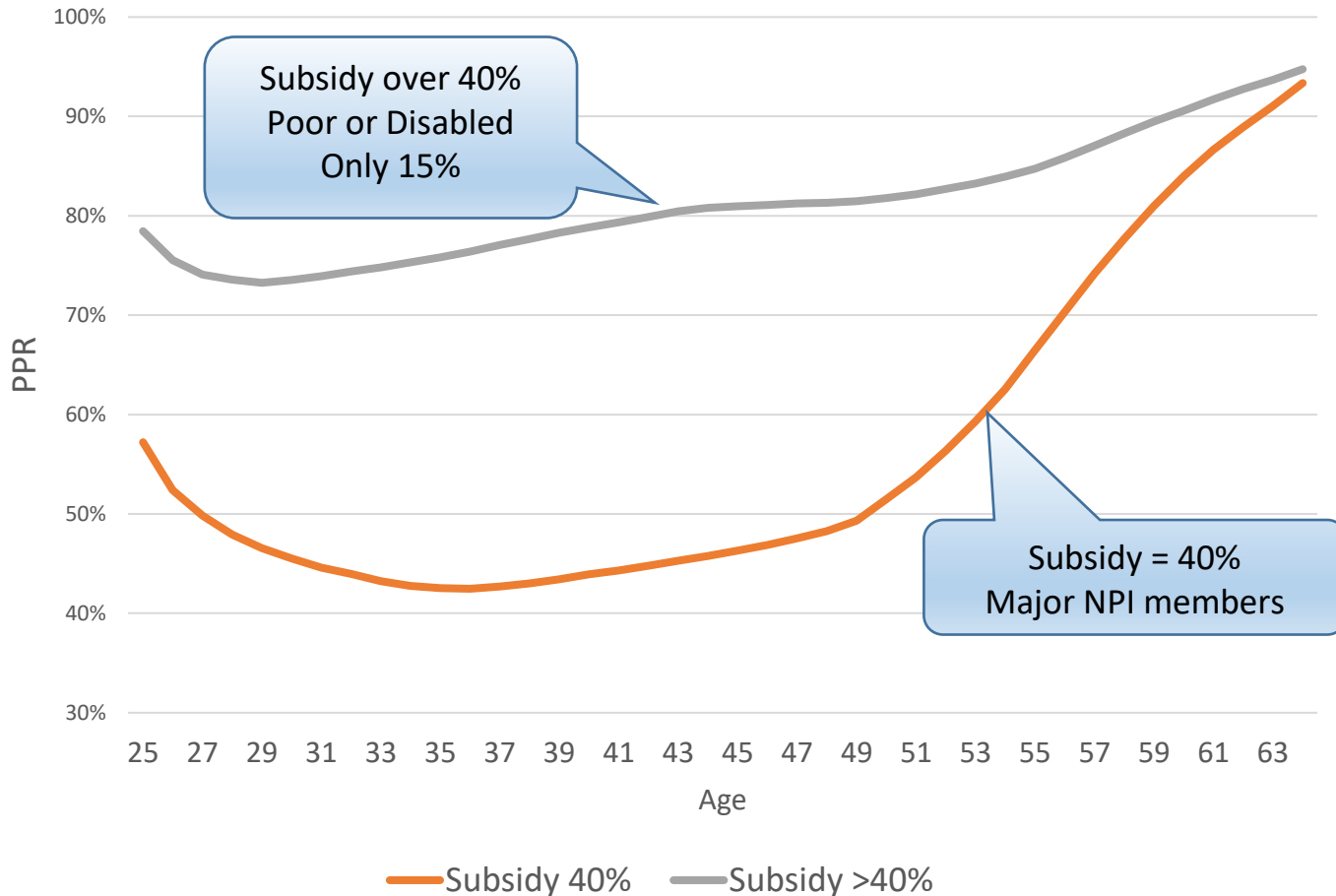
- For qualified citizens aged over 65
- Overall, 33% of the total pension benefit comes from NPI
- More than 40% for the lowest income level
- The lower the personal incomes, the higher the proportion of NPI benefit
- Achievement of Social Equality by better annuity benefit for low-income

Challenge 1: Underfunding Problem



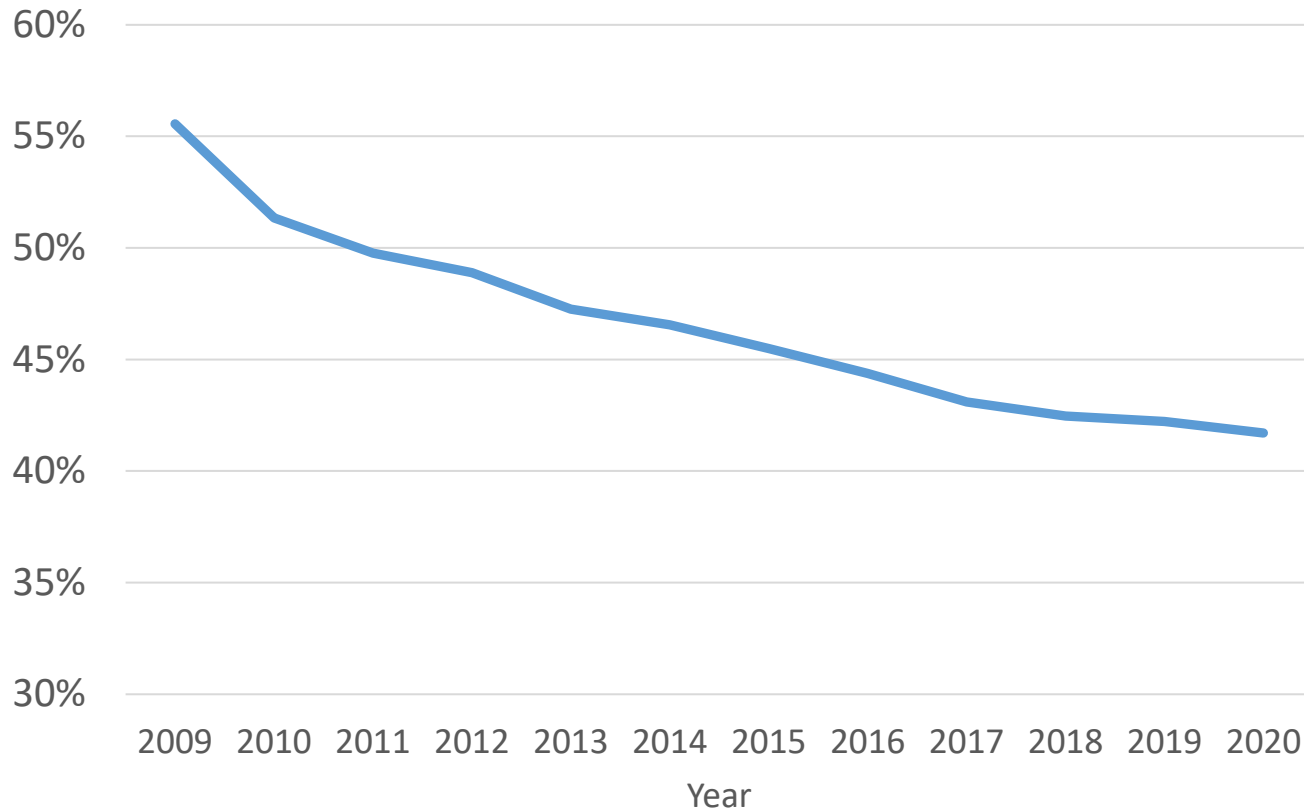
- Premium income is stable but will decrease over time
- Pension benefit will increase and exceed the premium income in the next 20 years
- NPI's fund is expected to be exhausted in 30 years.
- The fair premium rate for the financial balance = 20% > The current premium rate = 9.5%.
- Common problem for most public pension insurances.

Challenge 2: Poor's Insurance?



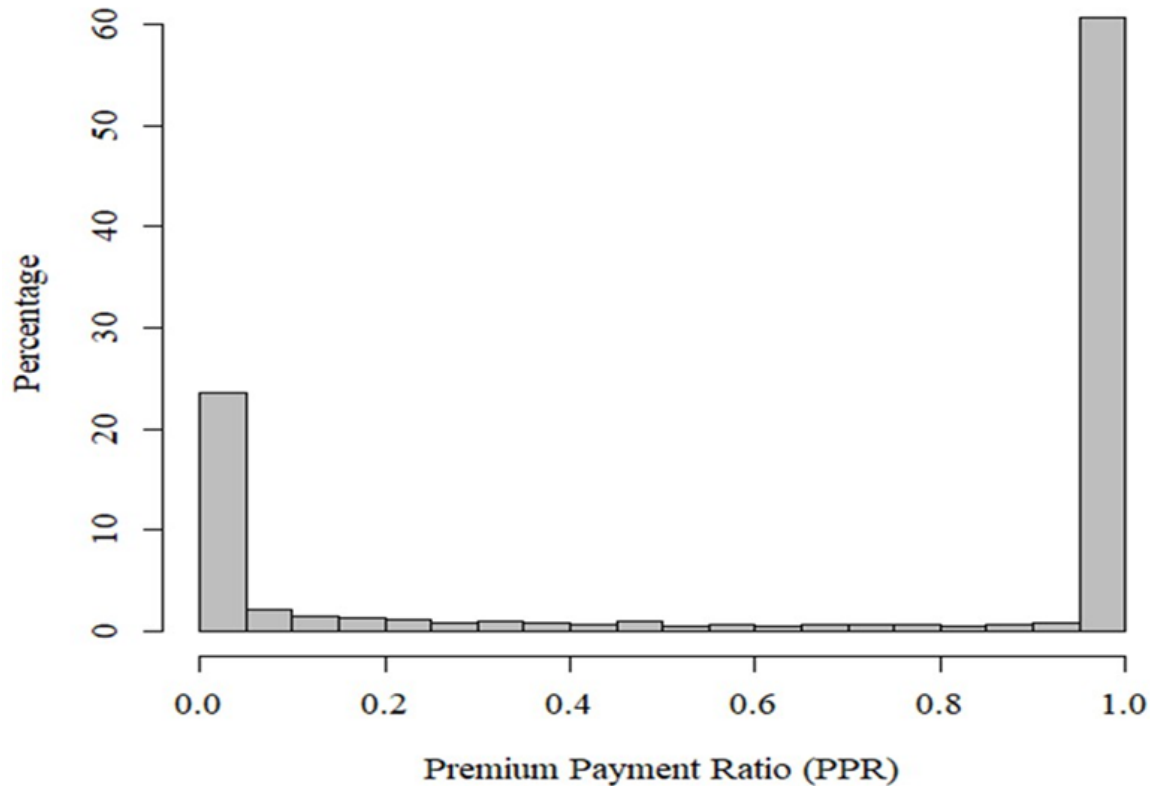
- To help non-working citizens to save for their elderly life
- Non-working citizens tend to be poor and unable to pay.
- Punishment of the Poor?
- Disabled and poor citizens tends to pay
- Ineffectiveness on social equality?
- To investigate the relationship between premium payment and economic status for most members.

Challenge 3: Decreasing Overall Premium Payment Rate



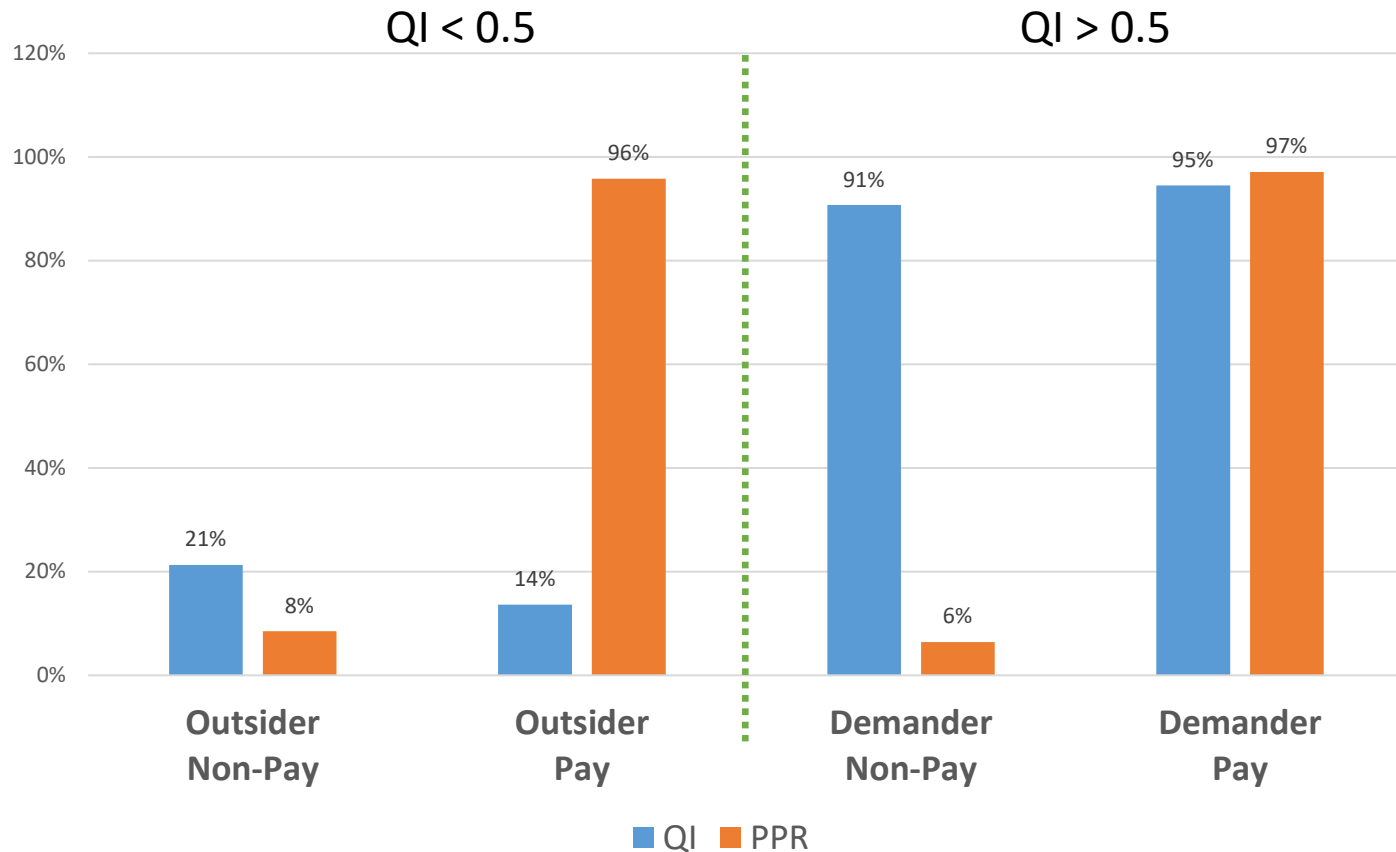
- Voluntary Premium payment
- Lower and lower Premium payment rates over time
- Declining cash inflow and failing financial sustainability
- Ineffectiveness to encourage citizens to save for elderly life.
- PPR promotion generates a higher financial gap, with underfunding
- Who needs NPI? Do they really pay?

Individual Premium Payment Rate



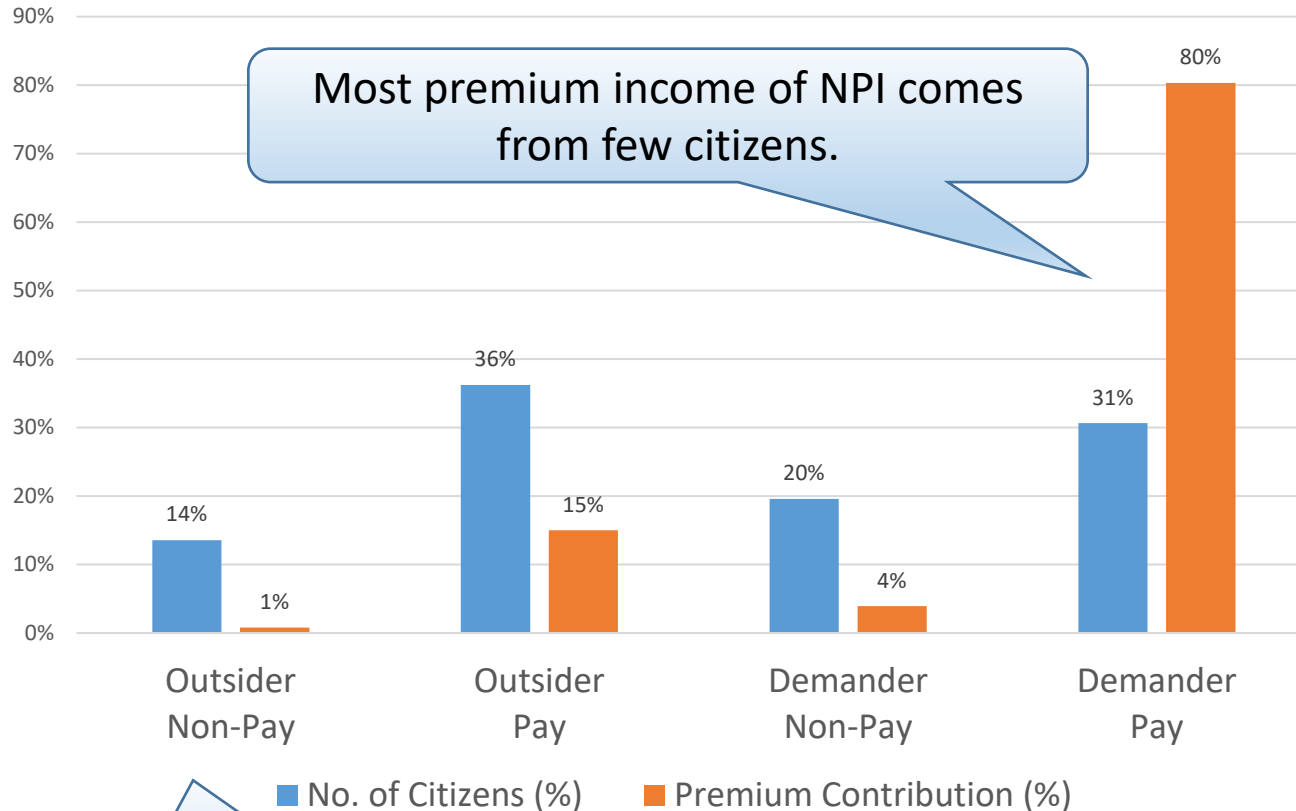
- Individual PPR
= # premium paid/# month in NPI
- Pay all their Premiums or not at all
- About 25% never or seldom pay
- About 62% pay premium regularly
- Overreacting to decreasing the overall premium payment rate?
- Should we ignore the citizens who need it and pay for it?

Who needs NPI?



- The longer in NPI, the more important it is.
- **Individual Qualified Intensity (QI)**
= # months in NPI / # alive months
- 4 groups divided: low/high QI and low/high PPR (>0.5 or not)
- It's rough, but distinguishable.

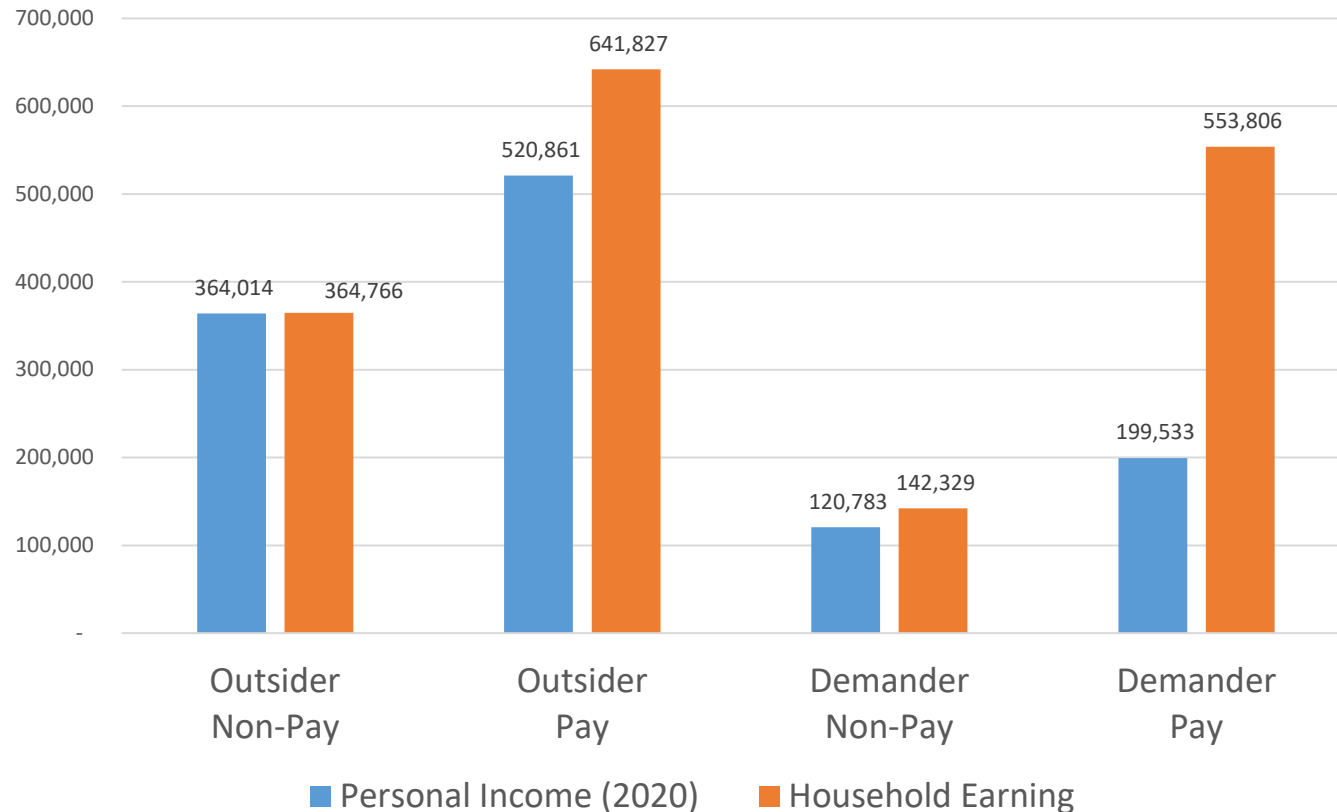
Comparison of No. Members and Premium Paid



- 30% Demander and Pay, contributing to 80% premium
- 20% Demander but seldom pay
- 36% Outsider and Pay, contributing 15% premium
- 14% Outsider and pay less.

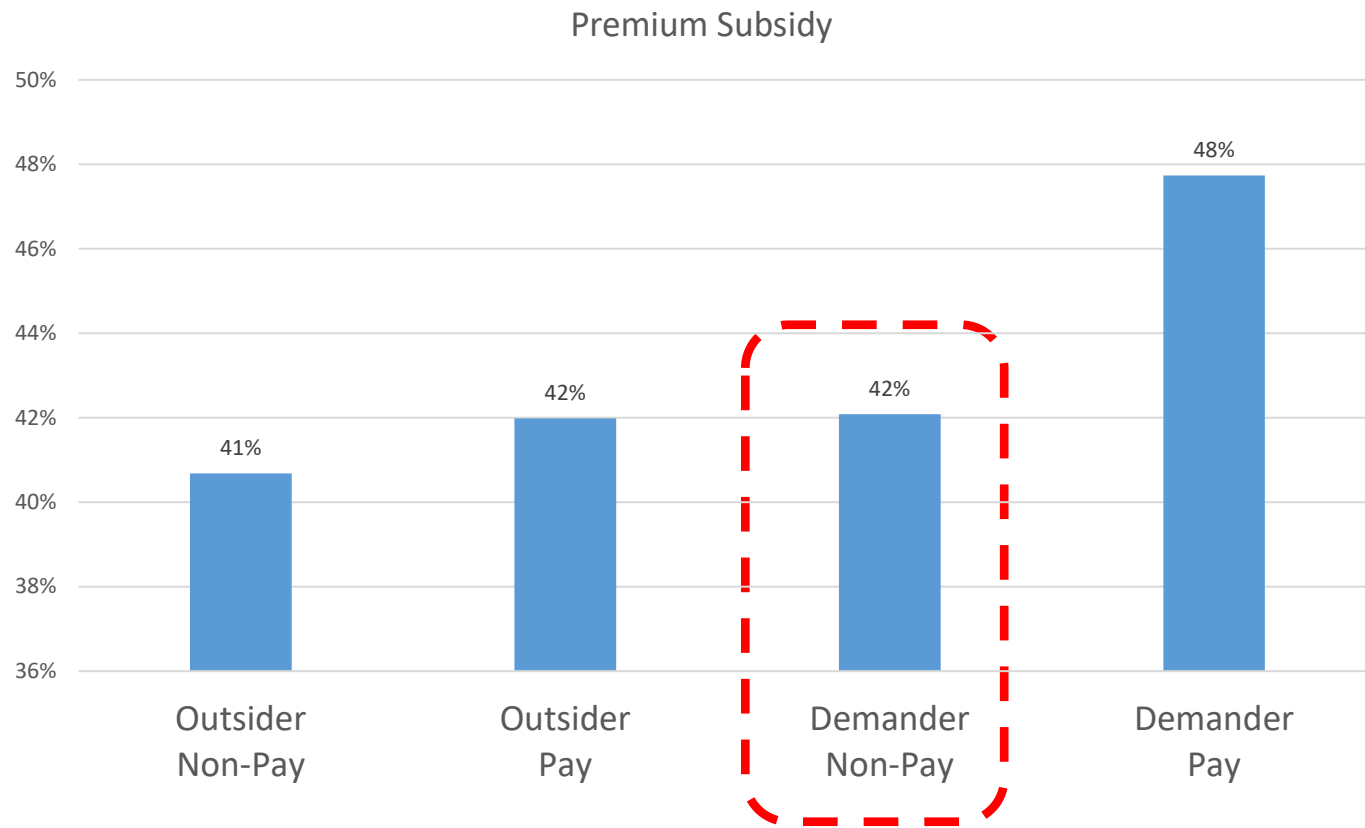
More and more!
Resulting to decreasing overall PPR.

How much do they earn?



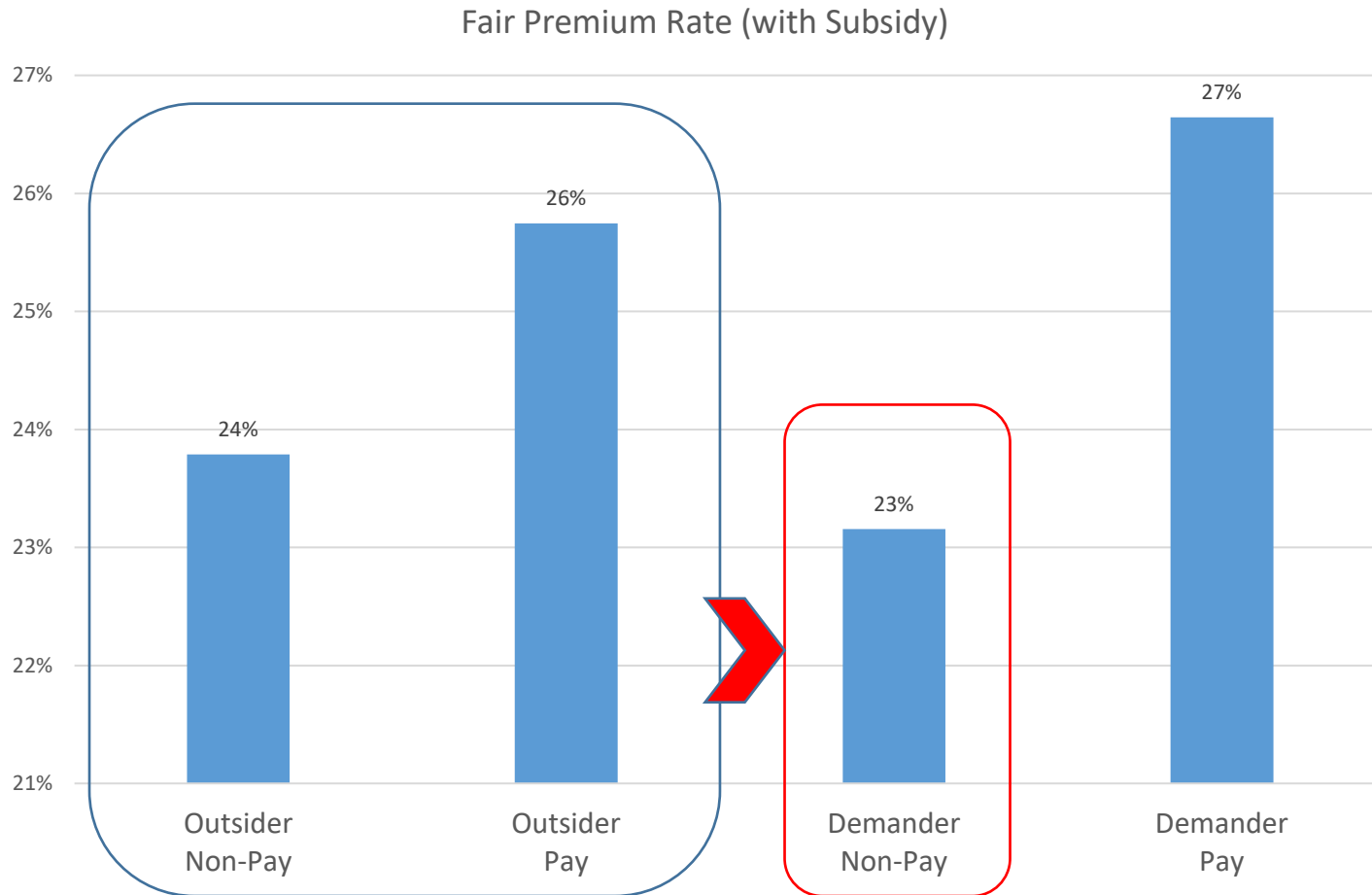
- For Outsider or Demander, the higher household earning/personal income, the higher PPR.
- Between Outsider and Demander, apparent difference reflects working ability/economic status.
- For Demander, household earning or family financial dependency is more critical than personal income, to premium payment
- Reference to determining Poor's Insurance or not.

Premium Subsidy Percentage



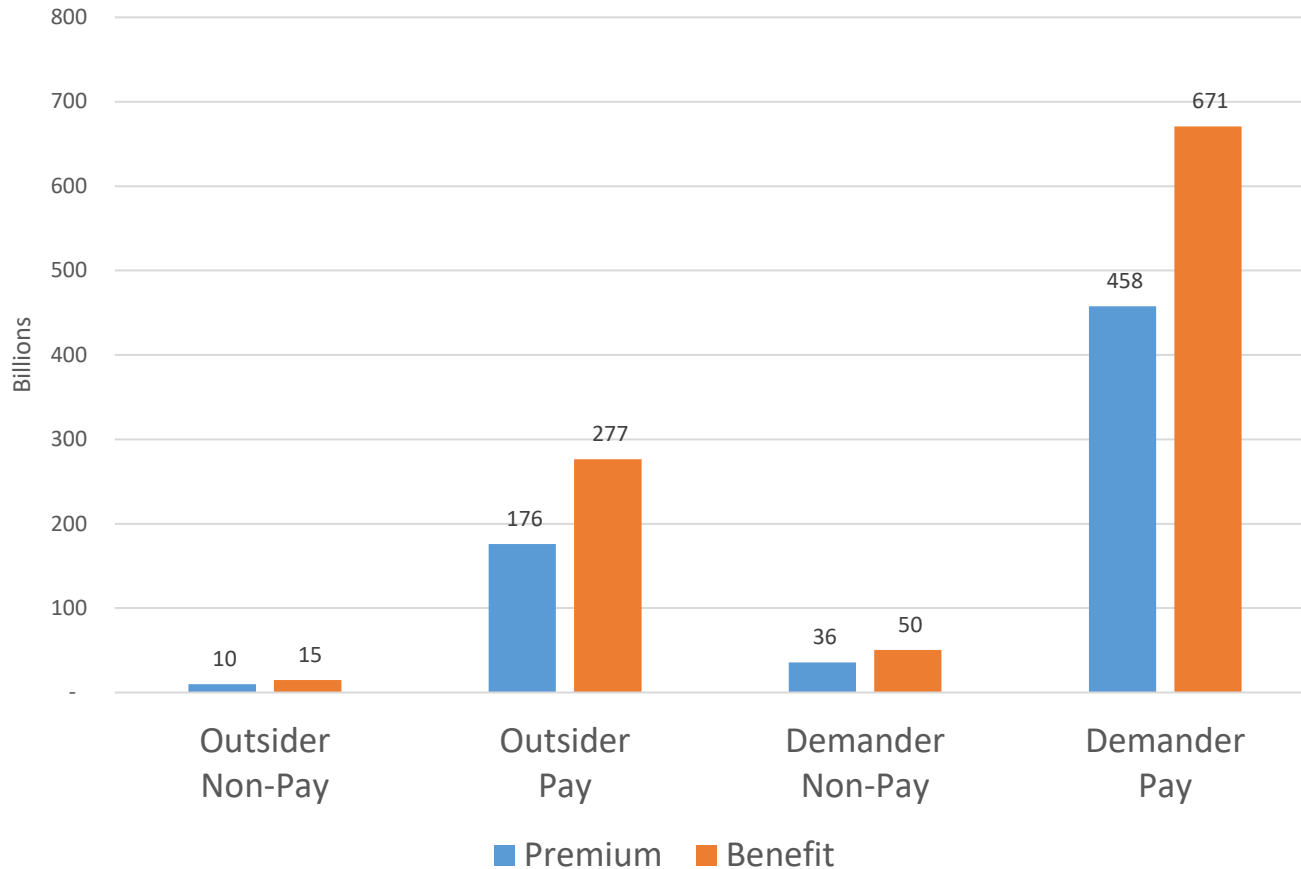
- Demander and Pay group is entitled to the most subsidies.
- For Demander and Non-Pay, the subsidy is not higher than others.
- Their incomes or earnings is less than others.
- Can we make government subsidy more related to citizens' economic status?

Social Equality by Fair Premium Rate



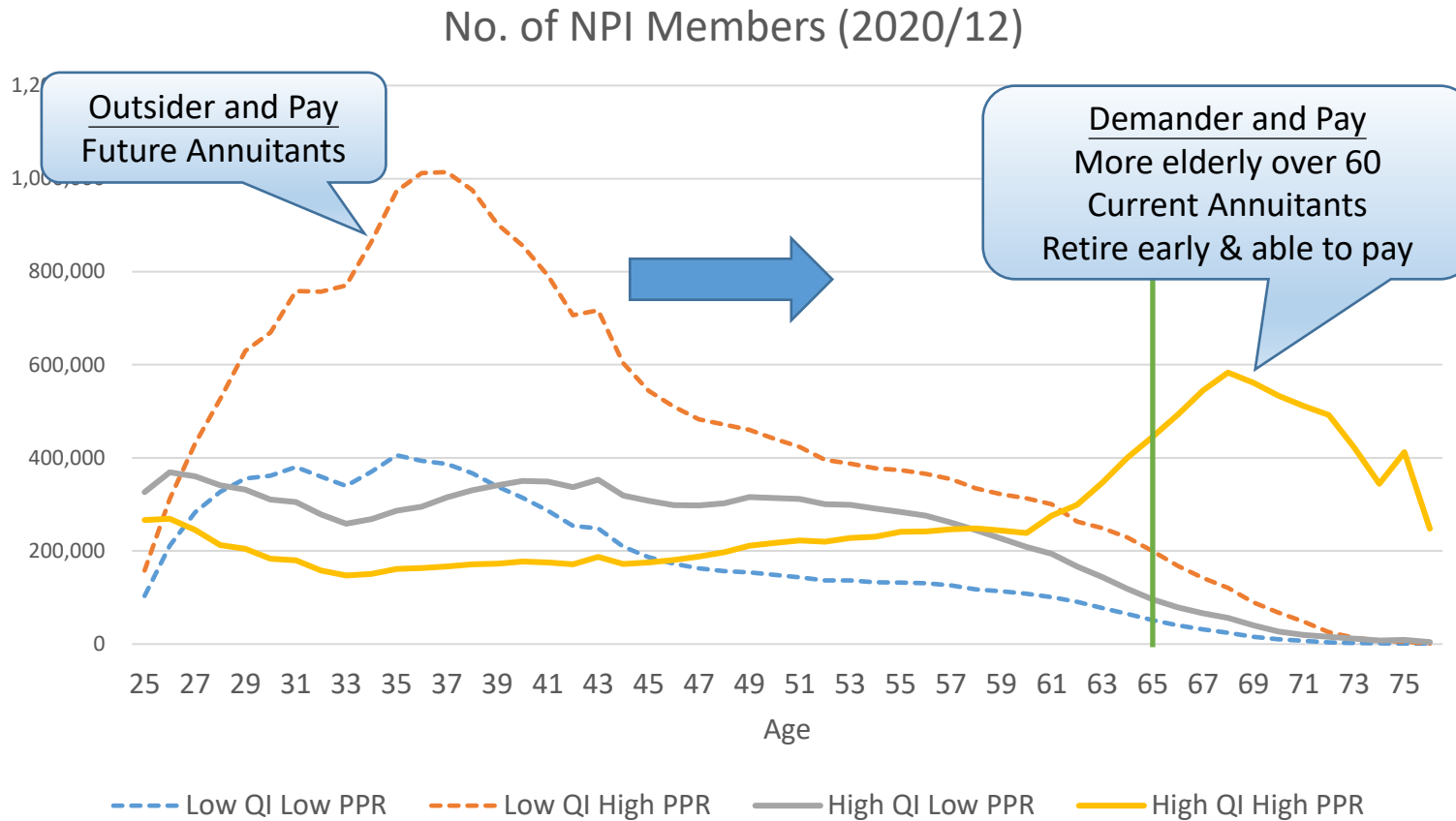
- The higher premium rate, the higher benefit comparing to premium paid.
- Outsider groups enjoy more benefit than Demander but Unable to Pay.
- Demander but Non-Pay show the lowest annuity cost due to high mortality.
- Do they deserve more subsidy for social equality?

Benefit v.s. Premium (Actuarial Liability)



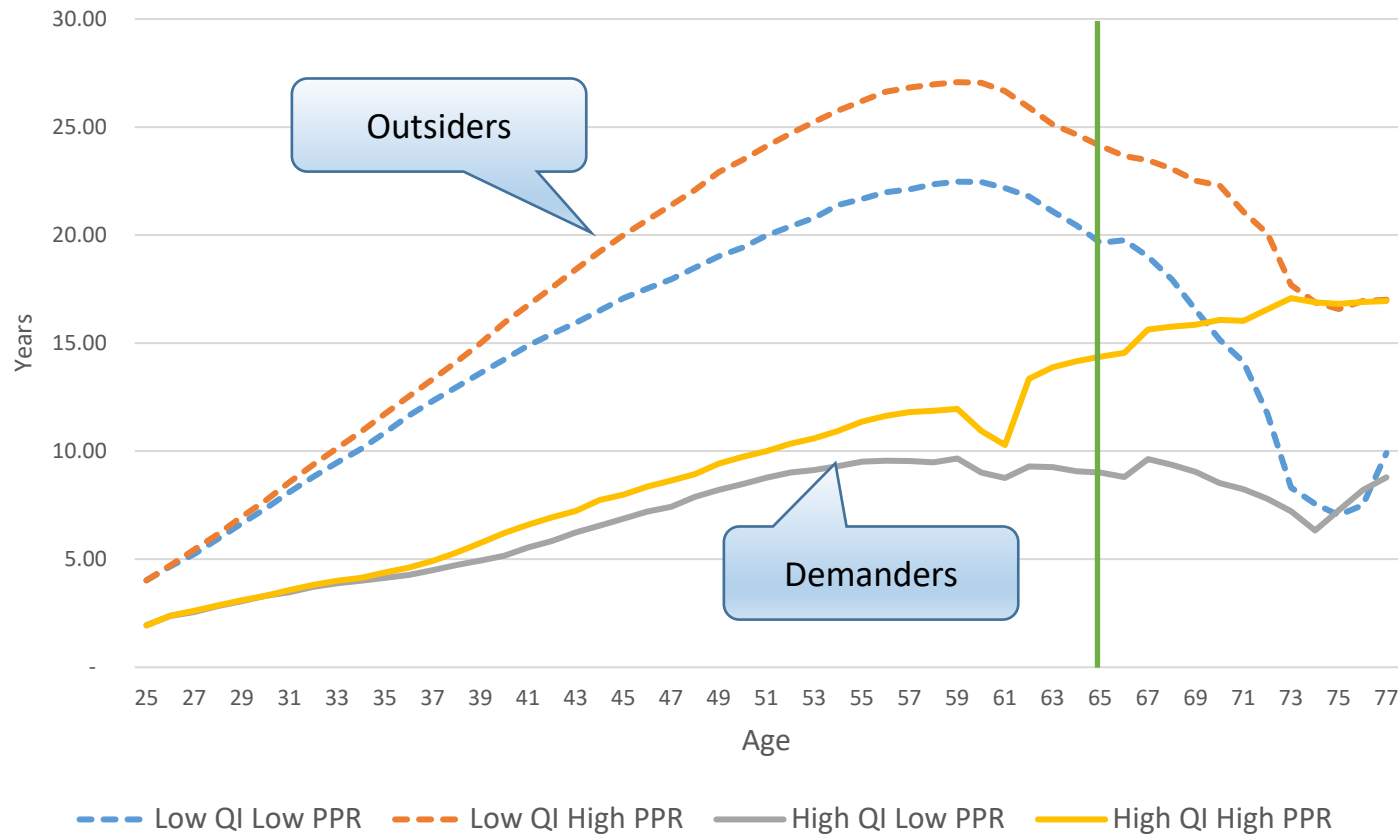
- Demander and Pay: stay long and pay, benefit the most
- Outsider and Pay: 2nd largest source of premium income and benefit
- A substantial proportion of NPI's actuarial liability comes from Outsider!
- Should NPI take this responsibility for someone who temporarily stays in NPI?

Demographic Comparison



- Demander and Pay includes more elderly citizens over 60 years old.
- Remaining groups include more young citizens, especially Outsider and Pay
- Current Annuitants (age over 65): retire early, stay in NPI, and pay all their premiums
- Future Annuitants will mainly be those who stay in NPI temporarily

NPI members' Service Years from Labor Insurance



- Outsider has more service years from LI.
- Probably enough pension benefits from LI.
- Don't judge NPI's low PPR and pension benefit amount without considering LI.
- For pension adequacy, can NPI fulfill this gap? Especially for NPI Demander who is unable to pay.

Conclusions

- A certain group needs NPI and consistently pays for it.
- Do not overreact to the declining average premium payment rate, considering the underfunding problem.
- A minor group of citizens in need of NPI but unable to pay.
- Subsidy policy should be more related to their economic status.
- A substantial portion of premium and benefit comes from briefly-qualified citizens covered by Labor Insurance
- Universality for ALL, or Sustainability and Equality for those who need it?

Thank You For Listening.