Labor insurance needs bold reforms

Written by Taipei Times Editorial
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When the Executive Yuan submitted its most recent draft amendments to the Labor Insurance Act (□□□□□□) to the Legislative Yuan for review in April 2017, it said that the government would subsidize the Labor Insurance Fund by NT$20 billion (US$651 million at the current exchange rate) every year to improve the labor insurance program’s financial situation.

The bills also included other measures to keep the fund afloat for several more years, such as raising insurance premiums by 0.5 percentage points every year until they reach 12 percent of insured people’s salaries. They would expand the scope of the insurance by 12 months each year, with payout in the case of inability to work to eventually be based on the person’s highest monthly salary in the previous 15 years, up from five years.

However, even if the draft amendments are passed during the new legislative session, which starts on Friday, they would only prevent the fund from going bankrupt for two more years, because of the unsustainable contribution-benefit formula — and neither government nor opposition lawmakers appear to have any intention to address the fund’s predicted insolvency soon, due to political calculations ahead of next year’s presidential and legislative elections.

To assess how likely lawmakers are to address the issue seriously, it suffices to look at how badly pension reforms for retired military personnel, civil servants and public-school teachers hit the Democratic Progressive Party in the local elections on Nov. 24 last year.

However, if no bold and effective measures are taken soon, the labor insurance program might collapse earlier than expected. Based on a Ministry of Labor projection at the end of last month, the Labor Insurance Fund, which manages NT$686 billion in assets, might run dry by 2028 if lawmakers were to approve the draft amendments this year. This is worrying news for Taiwan’s 10 million workers and only two years longer than originally projected, due to the nation’s falling birthrate and aging population.

According to the labor ministry’s calculations, an appropriate premium rate for the fund to stay afloat would be 27.94 percent, but the actual rate is only 10.5 percent, which means premiums fail to cover rising payouts. The system is also economically unsustainable if the long-term demographic trend remains unchanged — meaning that more people would claim labor insurance benefits, while fewer people make contributions.

Total insurance premiums in 2016 still exceeded payouts by NT$8.8 billion, but the labor insurance fund saw a shortfall of NT$27.5 billion (NT$355.4 billion in premiums collected minus NT$382.9 billion in payouts) in 2017, which was followed by a NT$25.1 billion deficit (NT$364.4 billion in premiums collected minus NT$389.6 billion in payouts) last year.

If the parties involved — including workers, businesses and government officials — continue to neglect the labor insurance system's problems and fail to agree on courageous and wide-ranging reforms, a crisis is inevitable in the not-too-distant future, with many workers possibly unable to collect their pensions by the time they retire and businesses struggling to meet their profit targets due to lower worker productivity.

The government's role is ideally that of a guarantor of last resort, but by that time it would have its hands tied due to growing social conflict and political bickering, making it impossible to push any meaningful reforms — no matter which party is in power.

Selfishness is part of human nature, yet in the face of the imminent crisis, the nation as a whole needs to find workable compromises through rational dialogue.

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