Introduction of

Pension Reform in Taiwan: the Path to Long-Rung Sustainability

經碩二 r03323068 楊克元

What is the question (of the paper)?

Pension reform in Taiwan is a heated debates recently, since its payment cannot match with the revenue in the long run leading to the crisis of bankruptcy of the pension system, and hence it is important to make a feasible pension reform policy to deal with this problem.

Why should we care about it?

For each country, one of the most important issue for government is how to establish a well-functioned pension system. A sound pension system is important not only for the people; also for the sustainable development of a country. Without the pension after retirement, for some people, they might not live up to the standard of living; or even worse, they might not be able to survive and thus it is important to make the pension system in Taiwan sustainably.

What is your (or the author's) answer?

From empirical result showing that a feasible way to improve the labor insurance pension system is to increase the early and normal retirement age by 5 years resulting in decrease of deficit from the social security (from 3.36% to 0.55% of the GDP) and decrease of addition income tax to balance the government budget (from 6.21% to 1.93%).

How did you (or the author) get there?

The author builds a general equilibrium life-cycle model including endogenous labor supply in both intensive and extensive margins; consumption; saving; benefit claiming. By stimulating the retirement age of early and normal, the author gets treatment groups to compare with the benchmark (current system), then provides a solution of the current labor insurance pension system.

Notations:

$s_{j,t}$: the probability of an individual of age j at time t survives until the next period t+1.

n_t: the rate of new cohorts entering the economy.

l: unit of time to work.

w: market wage

z: idiosyncratic labor productivity

η_j: age-specific productivity

l: labor hours

β: time discount factor

q: collected bequests for transfer lump-sum to individuals

K_t: aggregate capital inputs

L_t: aggregate labor inputs

α: capital share

δ: capital depreciation rate

τ^s: proportional payroll tax

τ^y: labor income tax

τ^c: consumption tax

J^N: normal retirement age

J^E: earliest claiming age

G_t: government expenditure

D_t: government debt

r_t: risk-less interest

γ: weight on consumption relative to leisure

ϕ: fixed cost of labor force participation