

# Characteristics of the New Labor Pension System

## 1. Individual and special accounts will play a major role and are supplemented by annuity insurance programs under the new Act

Under the new Act, all employers are required to deposit 6% (or more) of a worker's monthly wages into an individual labor pension account managed by the Bureau of Labor Insurance, with ownership going to the worker. Business entities employing 200 or more workers shall decide through their respective labor unions whether to adopt an annuity insurance program. If no labor unions exists, with the approval obtained through a labor-management meeting and the central competent (the Ministry of Labor), a business entity may take out an annuity insurance that complies with the Insurance Act on behalf of those workers who choose, in writing, to take out an annuity insurance.

## 2. Wider Range of Application

- (1) Mandatory Pension Contributors: Workers to whom the Labor Standards Act applies (Taiwanese citizens, foreign spouses, spouses from Mainland China, Hong Kong, or Macau, foreign nationals who have obtained permanent residence, foreign professionals, and foreign specialist professionals). Pension contributors under the Private School Law are not mandatory pension contributors.
- (2) Voluntary Pension Contributions: An employer who works or a worker or the appointed workers who is not subject to the Labor Standards Act can qualify to contribute

on a voluntary basis and may then contribute and receive pension payments in accordance with the Labor Pension Act.

## 3. The Retirement Pension Account is Portable

Workers adopting the new pension system may begin accumulating their pension accounts as their employers contribute to them. The accounts are portable and will be retained even if workers switch jobs or if business entities shut down or cease operations.

## 4. Severance Payments Can Still Be Claimed

Under the old system provided by the Labor Standards Act, a worker may not concurrently receive pension payments and severance payments. However, under the new system, a worker is not only entitled to monthly pension contributions from his/her employer but can also concurrently receive severance payments. Based on a worker's work seniority after the adoption of the new pension system, an employer must provide severance payments calculated at half a month's wage for every year of work seniority, and with time less than one year calculated proportionately. The maximum sum of severance payment is limited to 6 months of the average monthly wage .

## 5. Workers Who Contribute Voluntarily Enjoy Tax Incentives

Under the new system, in addition to the mandatory employers' contribution, workers may contribute voluntarily additional sums, maximum 6% of their monthly wages to their pension accounts. For those who contribute beyond the required amount, the extra contributions may be tax deductible from their total annual income.

## 6. Labor pensions have minimum guaranteed dividends

In accordance with the Labor Pension Act, the dividends accrued from worker's pension fund may not be lower than the dividends paid for a two-year fixed term deposit from a local bank. Should accrued dividends fail to reach that minimum rate, the National Treasury shall compensate the difference. In the future, dividends from individual pension accounts may vary due to investment outcomes in the financial markets, but with the guaranteed minimum rate, when a worker eventually receive his/her pension payments, in addition to the principal accumulated from all monthly contributions, they will also collect dividends equivalent to the interest paid for a two-year fixed term deposit from a bank.

## 7. Collecting your pension once you turn 60

Under the new scheme, a worker may begin collecting his or her pension payments upon reaching the age of 60, regardless of employment status. Workers with 15 years or more work seniority can choose to receive monthly pension payments or lump sum payments. Workers with less than 15 years of seniority can only receive lump sum payments.

## 8. Survivors or designated beneficiaries are entitled to

## claim the pension payment of a deceased worker

Survivors or designated beneficiaries of a deceased worker who died before reaching pension collection age may apply to receive a lump sum payment of deceased worker's pension account. If a worker already receiving monthly payments dies before reaching the average life expectancy, all subsequent monthly payments shall be ceased. Any remaining sum of the individual pension account shall be transferred to survivors or designated beneficiaries of the deceased worker.

## 9. Clear overview of operational costs for employer

Every month, employers should contribute 6% (or more) of a worker's monthly wage to a pension account created in the worker's name. With clear-cut accounting of operational costs, this would also help avoid disagreements over pension-related issues such as severance payments and employee termination, which in turn reduces the likelihood for labor-management conflicts and improves business competitiveness.

## Comparison of the Old and New Pension Systems

Topic	Labor Standards Act Pension System (Old System)	Labor Pension Act (New System)
Legal Basis	Labor Standards Act	Labor Pension Act
Level of Contributions	2% to 15% of a worker's monthly	Employer must contribute at least 6% of

	wage is to be deposited in a pension reserve fund	worker's monthly wage; Workers voluntarily contribute maximum 6% to their pension accounts
Target Group	Workers subject to the Labor Standards Act	Workers to whom the Labor Standards Act applies (Taiwanese citizens, foreign spouses, spouses from Mainland China, Hong Kong, or Macau, foreign nationals who have obtained permanent residence, foreign professionals, and foreign specialist professionals)
Managing financial	The Trust Department,	Bureau of Labor

institution	Bank of Taiwan	Insurance, Ministry of Labor
Basis used for calculating pension payments	Average wage (6 months prior to retirement)	Monthly wage (determined by the Monthly Contribution Classification of Labor Pension)
Method for calculation seniority	Work seniority must be at the same business entity	Accumulated amount of pension funds, not restricted to one business entity
Conditions for receiving pension payments	Work seniority of 25 years or having worked 15 years and reached 55 years of age or having worked 10 years and reached 60 years of age	Reach the age of 60, regardless of working or retired; if deceased before reaching 60, family survivors or designated beneficiaries may claim
Standards of benefits	[(1-15 years) x 2 units + (16 th year - x year) x 1	Accumulated principal and accrued dividends of

	unit] ≤ 45 units  1 unit=one average monthly wage	the pension account  (Contributed wages) x (6%) x (12 months) x (work seniority) + accrued dividends
Method of payment	Lump sum payment	Monthly payment: if work seniority equals 15 years or more; Lump sum payment: if work seniority is less than 15 years or work seniority equals 15 years or more can choose to receive.
Severance payments	One average monthly wage for each year of service	Half average monthly wage for each year of service. The total severance pay shall not exceed six average monthly wage

Ownership	Employer	Worker
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