

## The politics of pension reform in Taiwan and Hong Kong

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### Abstract

This paper compares pension reform in Taiwan and Hong Kong from the 1980s to present day. These two Chinese societies share similar social, economic and political features, and both initiated major reform on their old age income protection system since the 1980s. Despite these similarities between the two societies, their pension reforms differ tremendously.

With population ageing, there was an increasing concern among the society on establishing a modern old age income protection system since the 1970s in Hong Kong. After severe debates, Hong Kong government successfully established the private-managed Mandatory Provident Fund in the late 1990s. In Taiwan, on the other hand, the government failed to deliver its planned contributory national pension system. Instead, the last two decades saw a substantial expansion of Taiwan's tax-funded old age allowance programmes. The expansion of these non-contributory allowances in Taiwan has undermined public support for the proposed contributory national pension system.

This paper argues that each country's executive autonomy has contributed to the differences in pension reform. Despite major political reform, Hong Kong is still not a fully democratic society. The Chinese government and the Executive Council remains highly autonomous in policy making. In comparison, Taiwan's President and Members of Legislative Yuan are directly-elected. The strong Legislative Yuan and active social organisations have weakened the dominance of the Executive Yuan in policy making. The low degree of executive autonomy in Taiwan has resulted in the procrastination of pension reforms. This paper concludes by suggesting more research to elaborate the relation between political reform and social security expansion.

Key words: Pension, Population ageing, social security reform

## Introduction

The two Chinese societies of Taiwan and Hong Kong share many political, economic, and social features in common. Politically, they had been both under colonization for a long period of time, and their domestic political developments have been influenced by China. Economically, there are both members of the Four Asian Tigers, and have put economic growth first priority for development. In addition, they have both adopted an external-trade-oriented strategy for economic development. Their economic situations have been closely linked to international economic development. Socially, they have both been influenced by Confucianism, and have emphasised family obligation in child and elderly care. Social policies in Taiwan and Hong Kong are often categorised into the same group. New terminologies have been created to highlight the characteristics of social policies in this area, such as 'oikonomic welfare state' or 'Confucian welfare state' (Jones, 1990, 1993; Lin, 1999), 'welfare orientalism' (White and Goodman, 1998), and 'productivist welfare capitalism' (Holiday, 2000).

Since the 1980s, issues of population ageing emerged in Taiwan and Hong Kong. Proportions of people aged 65 or above exceeded seven percent of whole population in early 1980s in these two societies (Hong Kong Statistics Bureau, 1997; Taiwan Council for Economic Planning and Development 1995). With population ageing, reform of old age income security system has become an important issue in Taiwan and Hong Kong since the 1980s. After severe debates, Taiwan and Hong Kong both carried out important reform on their old age income protection system.

### Reform of Hong Kong's old age income security system

Hong Kong's first old age income protection scheme, Public Assistance Scheme, was introduced in 1973. A non-means-test allowance was provided to those aged seventy-five or over, and a means-test benefit was provided to those aged between sixty-five and seventy-four. This scheme went through an important reform in 1978 which reduced the age condition for the non-means-test allowance from seventy-five to seventy years old. In 1993, the Comprehensive Social Security Assistance (CSSA) scheme was introduced to replace the old means-test benefits. Although the elderly forms the majority of its beneficiaries, older people are not the only group who benefit from the CSSA scheme. Therefore, it is not regarded as an old age income protection scheme here.

Debates on whether a social insurance scheme or a provident fund should be established to provide income support to older people after their retirement started to emerge since the 1970s in Hong Kong. It became an important political issue in the late 1980s. Labour organisations and capitalists held opposite positions on this issue (Chow 1998; Tang 1998). Severe debates went on for years. The Hong Kong

government itself changed its preference between a social insurance scheme and a provident fund for several times. The Legislative Council passed the bill proposed by the Education and Manpower Bureau to establish the Mandatory Provident Fund (MPF) scheme. Related regulations were enacted in April 1995 and the scheme was in practice in 2000.

There were occupational pension schemes in place before the implementation of the MPF in Hong Kong. Members of occupational pension plans may keep joining those schemes and be exempted from the MPF. By September 2006, 68 per cent of the employed has joined the MPF scheme, and those who joined occupational pension plans were made up of 18 per cent of the employed (MPF Schemes Authority 2007). Hong Kong's current old age income protection system can be summarized in the following table (Table 1):

Table 1 Hong Kong's old age income protection schemes

Type of schemes	Name of scheme	Eligibility	Type of benefit	Benefit level	Source of finance	Time of establishment
Social allowance	Special Needs Allowance	Aged 70 or above	Regular payment	HK \$ 705 per month	General budget	1973
Social assistance	Normal Old Age Allowance	Aged 65-69, subject to means test	Regular payment	HK \$ 625 per month	General budget	1973
Provident fund	Mandatory Provident Fund	65 years old	Lump-sum payment	Depends on funds contributed and return rates	Contributed by the employed and the employer	2000
Occupational pension plan	Occupational pension plans	Depends on individual plans	Depends on individual plans	Depends on individual plans	Depends on individual plans	--

### Taiwan's old age income protection system

Taiwan's old age income protection system was established in as early as the 1950s. The Labours' Insurance (LI) scheme and the Military Servicemen's Insurance (MSI) scheme were introduced in 1950, and the Government Employees' Insurance (GEI) scheme was in place in 1958. These schemes all provide old age benefits to the insured. The GEI scheme merged with the School Staffs' Insurance (SSI) scheme into the Government Employees' & School Staffs' Insurance (GESSI) scheme in 1999. By the end of 2005, the numbers of the insured of the LI and the GESSI schemes reached 9.12 million, or 65.6 per cent of the 20-60 year-old population (Taiwan Ministry of

Interior Affairs, 2006; Taiwan Bureau for Labours' Insurance, 2006; Taiwan Central Trust of China, 2006).

The coverage for social insurance schemes in Taiwan has largely extended in the last fifty years. However, eligibility and type of old age benefits for these schemes rarely changed. Taiwan is now one of the few places providing lump-sum payment rather than regular benefit for retirement. Another limitation for Taiwan's old age benefit is that people not-in-the-labor-force are not covered by contributory old age benefits. These situations, coupled with trends of low fertility rate and population ageing, are important backgrounds behind the implementation of the plan for national pension system by the Taiwanese government in 1994 .

A multi-ministerial committee for national pension system planning was established in March 1994. The tasks for this committee were to review Taiwan's old age income protection system and to propose plans for reform. It proposed to establish a contributory national pension system to cover all citizens aged 20-64. However, given that the National Health Insurance scheme was just implemented in April 1995, the realisation of a national pension system was postponed to avoid sharp increase of burden on social security contribution for the insured and the employers within a short period of time. Another multi-ministerial committee was established to make detailed plans for the implementation of the national pension system in December 1996. It finalised detailed plans for the implementation in June 1998, and the government announced that the system would be in place in 2000. However, serious earthquakes occurred and over 2,000 people were killed in this island in September 1999. The government postponed the implementation of the national pension system again, for the sake of gathering all financial resources possible for the recovery of the earthquake. The implementation of the national pension system was re-scheduled to 2009.

After a decade's planning and discussion, the national pension system is still not in place in Taiwan. In the meantime, several non-contributory old age benefits were introduced and expanded due to severe political competition between political parties. There are four major tax-funded non-contributory old age benefits in Taiwan, including the Middle-Low-Income Elderly Allowance, the Old Farmers' Allowance, the Old Age Allowance, and the Older Aborigine's Allowance. These schemes together have caused serious financial burden to the government.

In addition to public old age income protection schemes discussed above, employers are required by the law to provide retirement benefits to the employees in Taiwan. The mandatory occupational retirement payment scheme was introduced in 1984, and was changed into a portable individual saving account in 2004.

Taiwan's old age income protection schemes are summarised in table 2. This paper will focus on public old age income protection schemes, and exclude occupational retirement payment schemes.

Table 2 Taiwan's old age income protection schemes

Type of schemes	Name of scheme	Eligibility	Type of benefit	Benefit level	Source of finance	Time of establishment
Social insurance	Labour Insurance	Men aged 60 or over and women aged 55 or over and have contributed for more than one year; or aged 55 or over and have contributed for more than fifteen years; or contributed at the same unit for more than 25 years.	Lump-sum payment	Depended on years of contribution, maximum 45 times of monthly contribution wages	Contribution paid by the government, the insured, and the employer	1950
	Government Employees' and School Staffs' Insurance	Aged 55 or over and have contributed for more than 15 years	Lump-sum payment	Depended on years of contribution, maximum 36 times of monthly contribution wages	Contribution paid by the government, the insured, and the employer	1958
Social allowance	Old Farmers' Allowance	Older farmers	Monthly payment	NT \$5,000 <sup>1</sup> per month	General budget	1995
Social Assistance	Middle-Low-Income Elderly Allowance	Low income elderly	Monthly payment	NT \$6,000 or 3,000 per month	General budget	1993

<sup>1</sup> US\$ 1 = NT\$ 32.5.

	Old Age Allowance	Older people not in the upper income levels	Monthly payment	NT \$3,000 per month	General budget	2002
	Older Aborigine's Allowance	Aborigine aged between 55-64 not in the upper income levels	Monthly payment	NT \$3,000 per month	General budget	2002
Occupational scheme	Labour Pension	Employees meet requirements for retirement	Lump-sum payment	Depended on fund contributed and rates of return	Employers' contribution	2004
	Government Employees' and School Staffs' Retirement Fund	Government employees and school staffs meet requirements for retirement	Lump-sum payment or monthly payment	Depended on years of contribution; maximum income replacement rate seventy per cent	Contribution by employees and the government/employer	1995

## Comparison of Taiwan's and Hong Kong's old age income protection system

The current old age income protection system in Taiwan and Hong Kong are summarised in Figure 1. As mentioned earlier, the paper focuses only on public schemes and excludes occupational ones.

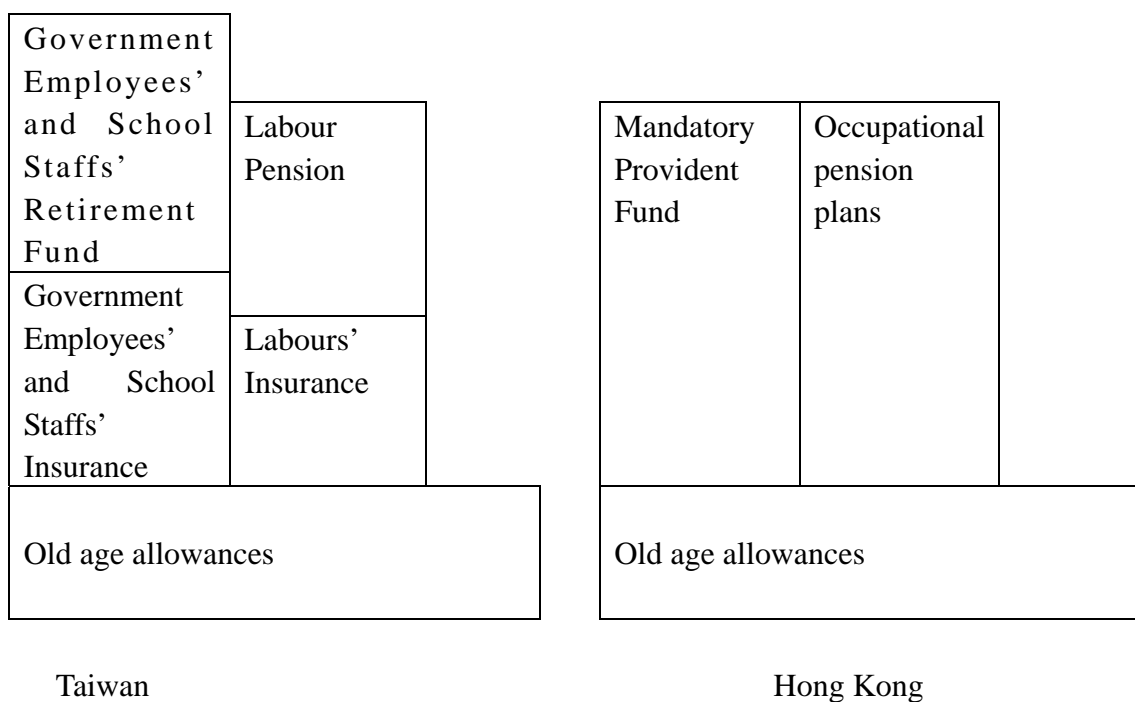


Figure 1. The comparison of Taiwan and Hong Kong's old age income protection system

As can be seen in Figure 1, the establishment of the MPF (second tier in Figure 1) is the most important reform of Hong Kong's old age income protection system. In comparison, major reforms of Taiwan's old age income protection system are the introduction and extension of tax-funded old age allowances (first tier in Figure 1). Hong Kong's MPF scheme was established after severe campaigns between advocates of a provident fund and of a social insurance scheme. The introduction of tax-funded old age allowances in Taiwan, on the other hand, was to serve as transitional measures before the implementation of the national pension system. These allowances have become the largest social security schemes in Taiwan in terms of their coverage and expenditure. The summary of the numbers of beneficiaries and expenditures of these allowances in Taiwan is as follows:



Table 4. Coverage and expenditure of Taiwan's old age allowances, 2005

scheme	Number of beneficiary	Number of beneficiary as a percentage of total population aged 65 or over	Expenditure (NT\$)
Old Farmers' Allowance	696,808	31.4	33,198,715,194
Old Age Allowance	746,410	33.7	25,972,598,370
Middle-Low-Income Elderly Allowance	148,118	6.7	8,929,251,079
Total	1,591,336	71.8	68,100,564,643

Source: Taiwan Ministry of Interior Affairs (<http://www.moi.gov.tw/stat/index.asp>), Taiwan Labour Insurance Bureau (<http://www.bli.gov.tw>).

Although Hong Kong and Taiwan share the same features in demographic, social, and economic situation, and started their reforms at the same period of time, pathways of pension systems in the two places are entirely different. While Hong Kong directed its old age income protection system toward a private retirement fund, Taiwan expanded its tax-funded benefit system. This paper argues that it is the different degree of executive autonomy that has resulted in the diverse path of pension development in these two places.

#### Administrative autonomy and pension reform in Hong Kong

Hong Kong experienced huge demographic, social, political and economic changes after the Second World War. Mass refugees fled from China after the War. The fact that they did not feel the sense of identity or belongingness contributed to Hong Kong's political stability after the War (Chan 1996). This also explains the fact that, unlike other European colonies, there was no movement toward independence or democracy in Hong Kong after the War.

The colonial polity of Hong Kong remained largely unchanged after the War. There were proposals advocating political reforms in 1945 and 1952, but these were abandoned due to opposition by the Governor and the conservative business elites who dominated the Executive Council and the Legislative Council (Lo 1997). The business elites feared that the development of a democratic polity might cause political turbulence and thus jeopardize the economy. In addition, China would not tolerate any attempt to develop democracy in Hong Kong and saw any political reform in Hong Kong as an omen of moving toward independence (Scott, 1989: 69-70; Lo, 1997: 15). Furthermore, the majority of the populace were not interested in political reform due to their apathy toward politics. These factors all obstructed political reform in Hong Kong. The government secured its legitimacy by achieving

high economic growth rather than demographic political reform.

The other factor that contributed to Hong Kong's political stability was the administrative absorption of politics in Hong Kong (King 1975; Holiday and Tam 2001). According to King (1975), the strategy of administration absorption of politics is to integrate social elites into political system by including them in the policy making structure. By this strategy, Hong Kong is able to establish an integrated polity, and the administrative sector has been able to secure its legitimacy.

Hong Kong's strategy of administration absorption of politics included the central and the grass root levels. On the central level, Hong Kong government appointed social elites into the Executive Council and the Legislative Council, so that they could participate in public policy making. A clear sign for this is that, among non-official members of the Legislative Council, the percentage of Chinese ethnicity increased from less than 50 percent to about 80 per cent from the period 1945-50 to 1981-82 (King, 1985). The Executive Council and the Legislative Council are the most important institutions in Hong Kong government, but they did not have political power to challenge the Governor. Hong Kong government also appointed social elites as consultants in administrative divisions, to include public opinion into policy consideration. On the grass roots level, the City District Officer Scheme was introduced to include social elites into the administrative system (King, 1975).

Hong Kong's political powers were dominated by the Governor and the Legislative Council. All members of the Legislative Council were appointed by the government before 1984. Although there were few non-official members, they served to smooth the legislative process rather than to oversee the power of the administrative sector (Lo 1997). There was no power to challenge the administrative sector's policy in Hong Kong before the 1980s.

The Sino-British negotiation on Hong Kong's future in mid-1980s stimulated democratic reform in Hong Kong (Lo 1997). The election for Urban Council in 1982 and the first partial election for Legislative Council in 1985 marked the beginning of Hong Kong's democratic development. However, this did not change Hong Kong people's apathy towards politics. Only 16 per cent of eligible voters voted in the 1985 election (Miner 1995).

The Tiananmen Square Incident of 1989 generated Hong Kong people's concern in politics. The first political party, the United Democrats of Hong Kong, was established in 1990. By 1994, there were eight political parties in Hong Kong. According to police records, number of demonstrations in Hong Kong increased from 285 to 405 from 1993 to 1995 (Chiu and Lui 2000). All these developments signaled the rise of political awareness among Hong Kong people. The government could no longer monopolise political power. The degree of administrative autonomy was in decline.

One clear sign that indicates the government's loss of total control in politics was the change of the result of the parliamentary motion to thank the Governor since the mid 1990s. Conventionally, a member of the Parliament would move to thank the Governor immediately after he finishes his policy addresses to the Parliament, and this move would pass without any opposition. However, in 1996, this motion was rejected by a vote of 22 to 23 (Chai and Chai, 1998: 13-15; 186-188). Through this unprecedented vote, the Parliament had clearly demonstrated that it was not no longer a rubber stamp, but had the real power to check the government's policies.

Despite these developments, Hong Kong is still not a mature democratic society. Members of the Legislative Council are not all directly elected. In addition, the Legislative Council only has limited power in policy making (Kuan and Lau 2002). Citizens in Hong Kong do not have the right to vote for their Chief Executive, nor the possibility to challenge his position. Take the former Chief Executive Tung Chee-hwa for example, he secured his position until 2005 although a survey in 2000 indicated that seventy per cent of the populace were not satisfied on his leadership (Kuan and Lau 2002). This survey also found that seventy per cent of Hong Kong populace thought the government did not care about their interest, and sixty-five of them felt no room to express their opinion on public policies (Kuan and Lau 2002).

The lack of a mature democratic system in Hong Kong is connected to its under development of social capital. Hong Kong people are generally apathetic, and are not keen on public affairs. Although governmental statistics show an increasing number of social organisations, percentage of population participating in these organisations remain low. Percentage of populace affiliated to social organizations increased from seventeen percent in 1998 to twenty-five per cent in 1998 (Holiday and Tam 2001). However, among those affiliated to social organizations, only twenty-eight per cent participated in organization activities on a regular basis (Lau 2000, cited in Holiday and Tam 2001). Hong Kong people are also not keen on social intercourse with their friends and neighbourhood (Holiday and Tam 2001). All these features contribute to the fact that there is no power mobilisation in the society to contend with the government. The government enjoys a high degree of autonomy and is able to implement policies based on its own preference. These are important backgrounds when Hong Kong underwent debates on pension reform in the 1980s and the 1990s.

There has been much debate about pension reform since the late 1980s in Hong Kong. There were disagreements between members of the Legislative Council and between social organizations concerning the setting up of a defined benefit system or a defined contribution system (Hong Kong Hansard 1992: 23; 1995: 2493). The Hong Kong government also vacillated between these two approaches. It was indicated in a consultant document, "A Community-Wide Retirement Protection System", that Hong Kong must have a pension scheme or a lump-sum payment or a mix of these two to protect old age income security in 1992 (Hong Kong Government 1992). In 1994, another consultant document, "Taking the Worry out of Growing Old", was published to compare the pros and cons of a defined benefit system and a defined contribution

system, and clearly indicated that a defined benefit system was the better option for Hong Kong (Hong Kong Government 1994).

On the other hand, from 1993 to 1995, there were no less than six motions proposed by members and passed by the Legislative Council urging the government to implement an old age income security scheme. In March 1995, the government, claiming that there was no clear public consensus on this issue and that there seemed to be widespread opinion in favor of a private mandatory central provident fund programme, announced the abandoning of the proposed pay-as-you-go Old Age Pension Scheme system. The Secretary for Education and Manpower proposed a motion in the Legislative Council urging that the government implement a private mandatory retirement income protection system. As a result of intensive canvassing, the motion was approved by the Council by a vote of 28 against 21 (Hong Kong Hansard, 1995: 2013-2068). In April, the Mandatory Provident Fund Office was established. The Legislative Council approved of the Mandatory Provident Fund Schemes Ordinance in 1995 and the subsidiary legislation in 1998. The debates in favor of different programs had finally tailed off and a new system for protecting retirement income security had been brought into practice.

The vacillation of Hong Kong government's position on pension reform reflects the lack of consensus on this issue. The split vote in the Legislative Council also signaled different opinions among its members. In addition, social welfare groups in Hong Kong were clearly in favour of a defined benefit system against a defined contribution system. However, all these disputes could not challenge the government's decision of implementing a defined contribution system.

#### Administrative autonomy and pension reform in Taiwan

Taiwan reverted to Chinese rule after the Japanese forces surrendered to the Allies in 1945. The Taiwanese at first had eagerly welcomed the Nationalists as liberators. However, the early Nationalist rule brought serious problems between the native Taiwanese and the mainland arrivals, and led to serious riots that broke out in February 1947, known as the '228 Incident'. It is estimated that about 10,000 people were killed, and 30,000 were wounded, among whom were a large number of the Taiwanese elite (Phillips, 1999: 295-296). After this accident, the KMT tightened its high-handed control on the Taiwanese society. Political activities were suppressed and opposition activists jailed. This policy lasted until the early 1970s, and was often regarded as a period of "White Terror" (Rigger, 1999: 58).

The Provisional Amendments for the Period of Mobilisation of the Suppression of Communist Rebellion promulgated by the ROC government in the mainland in 1948 was extended to Taiwan. These provisions allowed the president and the Executive Yuan to have unlimited power to authorize any policies deemed necessary to deal with threats to national security, natural disasters, and economic catastrophes (Chao and

Myers, 1998: 49). Moreover, an emergency decree was issued in 1950 and the 1934 martial law was applied to Taiwan. The Taiwan Garrison Command and Security Bureau were established, and police and a military court were used to arrest, imprison, or execute any individual they considered a threat to national security and public order (Chao and Myers, 1998: 52). Limitations were also placed on the number of newspapers and the number of pages for each paper. In addition, the KMT, claiming that the nation-wide election was technically unrealistic, suspended the elections to the three national representative bodies, National Assembly, Legislative Yuan and Control Yuan. As a result, the representatives elected in 1947-48 were able to hold on to their offices since their arrival in Taiwan for more than four decades. They provided rubber-stamp functions that legalised the election of the ROC president and facilitated the passage of government bills. Through these measures, the KMT was unrestrained in its absolute control over Taiwanese society.

In the 1970s Taiwan's position in international politics faced essential changes. Taiwan was eventually ousted from the United Nations and its place was taken by Communist China in 1971. When the U.S.A. broke off diplomatic relations with Taiwan in 1979, the whole island was shocked. More and more people became concerned with the diplomatic isolation of the country and its political future. Many were convinced that only by critical political reform could the country win the goodwill of the democratic West and the moral support of non-Communist countries (Lu, 1991: 40). The local Taiwanese petty bourgeoisie also developed gradually, due to the educational and economic development. Many of them hoped the state could relax its tight control on the society and financially supported the opposition (Lo, 1997: 223-224). All these conditions helped to generate the capacity for extensive campaigns for democratisation.

In response to domestic and external pressure, the National Assembly amended the Temporary Provisions in 1966 to permit supplementary elections to the National Assembly, the Legislative Yuan, and the Control Yuan. This measure was to increase the legitimacy of the KMT government after it had lost international recognition (Shelly, 1999: 110-111). These elections offered an opportunity for opposition leaders to participate in politics. They started campaigning election seats in the early 1970s. These candidates pooled resources and formed a campaign organisation which later became the core of a movement for founding an opposition party. In 1977 the opposition candidates scored impressive victories by winning 21 of the 77 seats in the Taiwan Province Assembly election (Tien, 1992: 9). At the meantime, several opposition magazines were also published and became influential (Shelly, 1999: 25).

Meanwhile, due to the development of favourable economic and social conditions, social movements and labour disputes also increased dramatically during this period. In the 1970s, the total number of labour dispute cases increased by more than ten times compared to the 1960s (Hsiao, 1992: 157). This suggests that the KMT had eventually lost its monopoly of control over the political arena and the society.

The most important internal events that influenced Taiwan's political future, however, were the 'Chungli Incident' and the 'Formosa Incident' in 1979. The former broke out on the election day when the protest of a crowd of angry voters against alleged irregularities in vote counting touched off a serious clash. The latter broke out when opposition leaders extended political activism to street protests and mass rallies in an attempt to foster a nationwide network organisation. Forty-one key opposition activists were subsequently sentenced (Tien, 1992: 9). Even though they soon successfully suppressed these protest activities, the KMT government realised that they could no longer resist the call for democracy, and eventually embarked on critical political reform in the 1980s and the 1990s.

A series of critical political reforms started in the late 1980s. In 1987 the Martial Law, implemented in 1947 and originally meant to be a temporary measure, was lifted. This was a milestone in political development, as opposition parties were legalised, and some restrictions on demonstration, group activities, and publication of newspapers were removed. As a result, there was a boom in a number of social movements. As Hsiao (1992: 157-163) indicated, by the end of 1989, 18 social movements had already taken shape in Taiwan's resurrected civil society, including the labour movements, farmers' movement, students' movement, welfare group protests and women's movement, and so on. The reported frequencies of social protest the government, including labour, environment, minority, and industrial ones increased from 175 in 1983 to 1,172 to 1988, among which 43 protests involved more than 1,000 protesters (Schafferer, 2001: 74-75).

The other milestone in the move to greater democratisation is constitutional reforms leading to full-scale elections for the National Assembly and the Legislative Yuan in 1991-2. As discussed earlier, based on the temporary provisions, the representatives who were elected in 1947-8 in the mainland and arrived in Taiwan in 1949 could hold on to their position permanently. Even though there were so-call supplement elections for adding members to the national representative bodies in 1969, 1972, 1980 and 1989, only a small number of seats were opened up to be contested. The 'permanent representatives' were forced to retire by the end of 1991, with a great deal of financial benefit. Thereafter, the KMT faced a crucial challenge from well-organised opposition parties in every election. The Democratic Progress Party (DPP), established in 1986, became a strong opposition power and contested intensively with the KMT in every election thereafter. They won the 2000 presidential election and terminated the KMT's monopolistic regime.

In addition to challenges from the opposition parties, the electorate's voting behaviour also contributes to the decrease of the KMT's influence on its members of the parliament. The electorate showed a clear tendency to vote according to candidates' individual characteristics rather than to their party affiliations. Many candidates attributed their victory of election to their own conditions rather than to support from their parties. Under such circumstances, many members of the parliament were highly autonomous and dared to propose policies against their party's position. This explains

the fact that there were a few members of the parliament from both the ruling party and the opposition party proposing schemes for pension reform in the 1990s.

The DPP won the 2000 presidential election, but lost the control of the parliament to the KMT and its allies. From 2000 onwards, the Executive Yuan has been controlled by the DPP while the Legislative Yuan has been dominated by the KMT party. It has been difficult for the administrative sector, handicapped by the legislative sector, to implement policies based on its plan. This explains the delay of the implementation of the planned National Pension System.

As the implementation of the National Pension System delayed, tax-funded old age benefits were proposed by political parties during elections. In the election for local authorities at the end of 1993, the DPP proposed a universal, non-contributory and non-means-tested pension system and intensified the debates concerning a national pension scheme. The DPP captured 41 per cent of the total votes in these elections, while the KMT got 47 per cent of the votes. It was the first time in any election in Taiwan that the KMT's share of the vote fell below 50 per cent and the DPP increased beyond 40 per cent (Dickson, 1997: 169). The old age benefit was thus considered as useful propaganda for winning votes (Gigger 1996; Aspalter 2002). Thereafter, this issue has become one of the most controversial debates in every election campaign. The KMT responded by expanding means-tested schemes for older people. The Middle-Low-Income Elder Allowance, the Older Farmer's Allowance, and the Old Age Allowance were introduced in 1993, 1995, and 2002 respectively.

These tax-funded benefits expanded fast. For example, the means-test condition of the Old Farmers' Allowance was eliminated in 1999 and this benefit became universal. In addition, benefit level for the Old Farmers' Allowance increased from NT\$ 3,000 in 1995 to NT\$ 5,000 in 2005. The increase of benefit levels is in contrast with the Executive Yuan's policy which emphasises the strategy to freeze them before the implementation of the National Pension System. However, the ruling party was compelled to accept the increase initiated by the opposition party, the KMT, in the Legislative Yuan.

## Conclusion

Both Taiwan and Hong Kong have been faced with challenges of population ageing, and have been under pressure to conduct pension reform since the 1980s. The backgrounds for reform and the strategies they have adopted are different from western industrial advanced countries. Pension reforms in the west were mainly driven by financial problems caused by population ageing, early retirement, and low increase in wages. Strategies for reform in these countries are to retrench existing systems, including increasing the eligible age and contribution, and reducing benefit (ISSA 1995; Gillion et al. 2000). Pension reforms in Taiwan and Hong Kong, on the other hand, was due to the insufficiency of their existing pension systems. Therefore, their reforms were to expand pension systems.

Pension reforms in the west in the past two decades have shown a clear pattern of path-dependence. Take OECD countries for example, they all made adjustment within existing structure, and none of them replaced their defined benefit systems by defined contribution systems (Myles and Pierson 2001). However, after reforms in the 1990s, Taiwan and Hong Kong have developed new pension systems different from their existing ones. Hong Kong has gone beyond tax-funded pension, established in the 1970s, to establish private-managed provident fund; and Taiwan has developed a massive non-contributory old age benefit system alongside its social insurance old age payment schemes.

Taiwan and Hong Kong's pension reforms in the 1980s coincided with their democratic reforms. They both experienced path-breaking reforms in pension. However, reasons causing their path-breaking reforms are different. In Taiwan, the administrative sector was handicapped by the legislative sector, and was not able to materialize its plan for National Pension System. In Hong Kong, the administrative sector dominated the directions of pension reform. It is the difference in degrees of administrative autonomy that contributed to the fact that Hong Kong successfully established its Mandatory Provident Fund, while Taiwan delayed the implementation of the planned National Pension System.

Taiwan and Hong Kong have experienced important pension reforms in the 1990s. It is expected that issues on old age income protection will produce severe challenges to the government in decades to come. Hong Kong's MPF system only covers the employees and the self-employed, and put people with fragmentary employment record under the risk of poverty in their later life. As to Taiwan, expansions on tax-funded old age benefits have brought serious financial burden on the government. Designs of current tax-funded old age benefit schemes can not resist pressures from interest groups to increase benefit levels. It is an urgent task for the government to materialise the planned National Pension System.

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