

New Labor Pension Reform and It's Impact on Business Management in Taiwan

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ABSTRACT

The purpose of this study is to explore the major factors of new labor pension scheme to the domestic enterprises' management. We made questionnaires survey for 2821 enterprises, to know their view about the new labor pension scheme, then we use principal component analysis and factors analysis methods to find the key factors to influence the enterprises management, the employee fringe benefits will be reduced, but most of the employer and the employee are satisfied with the new labor pension reform.

Keywords: *New labor pension scheme, protect pension rights for retirees, income security for senior workers.*

INTRODUCTION

New labor pension scheme is one of the major social welfare reforms in Taiwan. The purpose for this reform is to protect the retirement income for the labor, and to keep the competitiveness for the employer. In this study, we explore the impact of new labor pension scheme on the salary, the labor supply and demand, vocational training and investment among different industries and sizes of establishment and their responding strategies

According to the present Labor Standards Law, since 1984, the employer should prepare the retirement fund 2%-15% of their total salary according to a actuarial formula set by the retirement regulations. We call this scheme 「the old labor retirement scheme」, it was need to be amended, otherwise, most of the small and medium enterprises employees will be non-pensioner. Because, according to the old scheme, only the employees who have worked for the same employer for more than 25 years or 15 years reach 55 years old, entitled to ask their employer to pay them retirement payment. But, unfortunately, the average life for Taiwanese small and medium enterprises is only 13 years, it is almost impossible for a employee to work for the same employer for more than 25 or 15 years. Therefore, the new pension reform got the support from the employer as well as the labor. The new Labor Retirement Act has been passed in the Congress (the Legislative Yuan) on June 10th, 2004. It was fully enforced since July 1st, 2004.

In order to know the impact of the new labor pension scheme on the burden of the management and the relationship between the employer and the employee. We made a questionnaire survey to know the key factors for the influence of new pension scheme.. We use main components analysis and factor analysis method to do this research for the improvement of the business management and the relationship between the employer and the employee as well as for the labor policy review and suggestions.

LABOR RETIREMENT PENSION THEORIES

1. State limited liability theory

The State provides labor retirement pension scheme legislation and supervises the successive execution of the legislation. The fund of pension scheme comes from the employer and the employee. The State pays nothing for the pension fund but only income tax deduction for the employer as well as the employee.

2. manpower depreciation theory

The employer pays the price for the depreciation of machines and all facilities for production. They should also pay the price for the depreciation of manpower for their employees. The employee works for them for a long time from young to old, they will finally lose their ability to earn their living, and become a retiree. The employer should pay for their losses as manpower depreciation compensation.

3. Deferred wage theory

The responsibility for the employer to pay the retirement pension is because the pension just like the due to pay wages for their workers. Retirement payment is part of wages. The employer always tell their young employees not to ask for wage increase, because the employer' burden for their retirement payment is heavy. The employee forgave the right to increase their wage, it is suitable for them to have retirement pension as not yet pay wages.

4. Incentive function theory

The retirement payment is an important part of labor contract between the employer and the employee. The employer promised to pay their workers as one of the incentive measures. Therefore, the retirement pension is the contingent liability for the employer to pay for their employees. The employer' promise to pay the pension , let their employees feel safe and happiness to stay with their employer. It saves the labor cost for job transfer and new employee commencement training. It worth for the employer to pay the retirement pension.

5. Labor-management cooperation theory

The employee asks for participation in the management of their pension fund and voluntarily to pay their part for the fund. Therefore, the employer and the employee share the burden of pension fund utilization risks. They help each other to overcome all kinds of difficulties to increase their retirement income, it is a good example of labor -management cooperation.

6. Living maintain theory

Let their employees to maintain a suitable retirement income is one of the enterprises' social responsibilities. It is not the only duty for the enterprises to pursue maximum profits, to improve the living standards for their employee and their families as well as local communities are also their unavoidable responsibilities.

7. Commercial expedience theory

This theory came from Japanese business management concept. The employer' willing to pay the retirement pension for their employees is coming from a feeling of their kindness and gratitude. It is to reward the long time service for their employees. It is to depend on the employer to decide whom and how much, they are willing to pay the gratitude. They do not consider enough or not for their retirement living need.

DATA ANALYSIS METHOD

1. Principal Components Analysis

According to Pearson, K.,(1901) "On Lines and Planes of Closest Fit to System of Points in Space,", the principal components analysis is a method of dimensional reducing..The formation of new variance is the linear combination of original variance. The maximum number of new variance are equal to the number of original variance. (Lu,Gin-Ho,2005)

The explanation of principal components analysis :

- (1) From eigenvector we get reflective indicators.
- (2) Put original data into the principal components formula, we get principal components scores.
- (3) New variable variance is eigenvalue. The original total variance is equal to new total variance , it is sum of eigenvalue.
- (4) A loading is the association coefficients of old and new variance. It indicates the influence of original total variance toward new total variance. The heavier loading means the higher influence.

The formula of principal components analysis : $l_{ij} = \frac{w_{ij} \sqrt{\lambda_i}}{s_j} = r_{y_i x_j}$

l_{ij} is the loading of j variance on i principal components; w_{ij} is the weight of j variance on i principal components; λ_i is the eigenvalue of i principal components; s_j is the standard deviation of j variance.

The heavier loading means the higher influence. Generally, we take “ ≥ 0.5 ” as a standard to accept or reject, in order to give a name for new variance.

2. Factor Analysis

The purpose of factor analysis is to find the structure of research data. From a few factors to explain a cluster of mutual related variances.

The model of factor analysis as structure matrix as follows:

$$X = \mu + Lf + \varepsilon \Rightarrow X - \mu = Lf + \varepsilon$$

$$X = \begin{bmatrix} X_1 \\ X_2 \\ \vdots \\ X_p \end{bmatrix}, \mu = \begin{bmatrix} \mu_1 \\ \mu_2 \\ \vdots \\ \mu_p \end{bmatrix}, L = \begin{bmatrix} l_{11} & l_{12} & \cdots & l_{1q} \\ l_{21} & l_{22} & \cdots & l_{2q} \\ \vdots & \vdots & \ddots & \vdots \\ l_{p1} & l_{p2} & \cdots & l_{pq} \end{bmatrix}, f = \begin{bmatrix} f_1 \\ f_2 \\ \vdots \\ f_q \end{bmatrix}, \varepsilon = \begin{bmatrix} \varepsilon_1 \\ \varepsilon_2 \\ \vdots \\ \varepsilon_p \end{bmatrix}$$

$$E(f) = 0, Cov(f) = \Phi, E(\varepsilon) = \Psi, Cov(f, \varepsilon) = 0$$

L is loading matrix or Pattern matrix

<hypothetical assumption $\mu = 0, \Phi = I$ >

The result of factor analysis model:

$$\Sigma = Cov(X) = L\Phi L' + \Psi$$

QUESTIONNAIRE SURVEY: ANALYSIS AND RESULT

In order to know whether the enterprises fully realize the new labor retirement scheme and how are their labor cost affected by the new law, we made a special questionnaire survey to the owner of enterprises or the employer.

We use Stratified Random Sampling from all enterprises participated in labor insurance, we got 20,000 samples, according to different industry and different scale.

We mailed the questionnaires to 20,000 sample enterprises on July 2, 2006, then we got 1849 the valid return questionnaires till August 20, 2006. We also tried to increase the return rate by on the spot questionnaire survey, we used labor insurance or labor law forums hold by the Council for Labor Affairs. We got another 972 valid returned questionnaires.

1. The Structure of Enterprises

From the total 2821 valid returned questionnaires, we found 2410 from private enterprises, 85.4%; 190 from public enterprises, 6.7%; 84 foreign enterprises, 3%. Most of the questionnaires came from small enterprises (less than 99 employees), 1539 samples, or 54.6%; than large enterprises (more than 200 employees), 614 samples or 21.8%; than medium enterprises (100-199 employees), 557 samples, or 19.7%. Most of them from service industries, 1418 samples or 50.3%; than manufacture industries, 1215 samples, or 43.0%; than agriculture and quarry industries, 21 samples or 0.7%. Most of them have been established more than 20 years, 988 samples, or 35%; than more than 10 years and less than 20 years, 748 samples, or 26.5%; than above 5 years, less than 10 years, 487 samples or 17.3%; than less than 5 years, 322 samples or 11.4%. According to the location, most of them from northern Taiwan, 1514 samples, or 53.7%; than from middle Taiwan, 485 samples, or 17.2%; than from southern Taiwan, 478 samples, or 16.9%; than, from eastern Taiwan, 39 samples, or 1.4%. Only 417 samples or 14.8% have trade unions; only 345 samples or 12.2% have collective agreements.

Table 1: Sample Enterprises Structure

| | Samples | % |
|---------------------------------------|-------------|------------|
| Type of Organization | | |
| Private Enterprise | 2410 | 85.4 |
| Public Enterprise | 190 | 6.7 |
| Foreign Enterprise | 84 | 3 |
| Not available | 137 | 4.8 |
| Number of Employees | | |
| 9 persons and less | 313 | 11.1 |
| 10-29 persons | 394 | 14 |
| 30-99 persons | 832 | 29.5 |
| 100-199 persons | 557 | 19.7 |
| 200-499 persons | 353 | 12.5 |
| 500 persons above | 261 | 9.3 |
| Not available | 111 | 3.9 |
| Industry of Sample Enterprises | | |
| Manufacture | 993 | 35.2 |
| Other Service | 409 | 14.5 |
| Wholesale and Retail | 224 | 7.9 |
| Construction | 179 | 6.3 |
| Transportation | 149 | 5.3 |
| Bank and Insurance | 139 | 4.9 |
| Medical Care and Welfare Services | 137 | 4.9 |
| Science and Technological Service | 93 | 3.3 |
| Accommodation and Catering Services | 72 | 2.6 |
| Educational Services | 58 | 2.1 |
| Government Services | 58 | 2.1 |
| Culture, Sport and Leisure Services | 44 | 1.6 |
| Not available | 276 | 9.8 |
| Estate and Leasing | 35 | 1.2 |
| Agriculture | 15 | 0.5 |
| Electricity, Gas and Water | 43 | 1.5 |
| Mining and Quarrying | 6 | 0.2 |
| Not available | 167 | 5.9 |
| Years Since Established | | |
| Less than 5 | 322 | 11.4 |
| 5-10 | 487 | 17.3 |
| 10-20 | 748 | 26.5 |
| above 20 | 988 | 35 |
| Location of Enterprises | | |
| Northern Taiwan | 826 | 29.3 |
| Taipei City | 688 | 24.4 |
| Middle Taiwan | 485 | 17.2 |
| Southern Taiwan | 381 | 13.5 |
| Kaoshiung City | 97 | 3.4 |
| Eastern Taiwan | 39 | 1.4 |
| Not available | 305 | 10.8 |
| Total | 2821 | 100 |

Table 2: Any Trade Union in the Company

| Trade Union in the Company | Samples | % |
|----------------------------|---------|------|
| Yes | 417 | 14.8 |
| No | 2242 | 79.5 |
| Not available | 162 | 5.7 |

Table 3: Any Collective Agreement

| Binding Collective Agreement | Samples | % |
|------------------------------|---------|------|
| Yes | 345 | 12.2 |
| No | 2255 | 79.9 |
| Not available | 221 | 7.9 |

2. The old worker retirement scheme

Most of the enterprises (2585 samples, or 91.6%) have established employee retirement system according to Labor Standards Act. But, still 195 samples or 6.9% do not have employee retirement system. 2347 samples or 83.2% have prepared retirement pension fund for their employees. But, still 174 samples or 6.2% do not have retirement pension fund.

According to the Labor Standard Act, all enterprises shall allocate the workers' retirement reserve fund ranging from 2% to 15% of its total monthly wage payments per month. The allocation rate for each business corporation shall be formulated by the employer within the scopes of above mentioned 2% to 15% of its total monthly wage payments per month, taking into consideration of the following factors:

- (1) The seniority of the workers.
- (2) The wage structure.
- (3) The labor turnover rate in the current five years.
- (4) The number of workers who will retire in the next five years.
- (5) The retirement fund allocated according to the rules for the Safekeeping, Utilization and Disbursement of employees' Retirement Fund for the Profit-Making Enterprises before the rule become applicable.
- (6) The life insurance taken for workers before the rule becomes applicable provided that the benefit payments of which may definitely be used as a workers' retirement reserve fund.

According to our survey, 873 samples or 37.2%, allocate 2% of its total monthly wage payments per month to their workers' retirement reserve fund; 802 samples or 34.2%, allocate 6%; 43 samples or 1.8% , allocate 15%.

102 samples or 22.1% enterprises will take life insurance as a workers' retirement scheme.

Totally, 1777 samples or 92.9% enterprises have their workers' retirement scheme abide by the Labor Standards Act; but, still 109 samples or 5.9% enterprises do not have their workers' retirement scheme.

Although most of enterprises already have their workers' retirement scheme, but, most of the workers do not entitle to claim their retirement payment, because according to Labor Standards Act, a worker may apply for voluntary retirement under either of the following conditions:

- (1) Where the worker attains the age of 55 and has worked for 15 years.
- (2) Where the worker has worked for more than 25 years.
- (3) Where the worker attains the age of 60 and has worked for 10 years.

Most of the workers have not worked for the same employer for more than 10 years, because they change the job very often; At the same time, the average life of the enterprises is only 13 years, Most of the workers can not work so long to claim their retirement payment. This is the reason why the above mentioned old retirement scheme should be reformed into new portable retirement scheme.

3. New worker retirement scheme and its' impact on business management

New Pension Act was enacted on July 4th 2007, it began a portable workers' retirement payment. Most workers welcome this new retirement payment scheme except state own enterprises workers, they prefer the old scheme. They do not intent to change job, their employer is the government, They can get their retirement payment at rate of 15% of their monthly wage. But, according to the new law, they can get only 6% of their monthly wage. They lobbied the legislators, then the article 9 of the new law promulgated "Within the period from the promulgation of this Act to one day prior to the enforcement of this Act, employers shall inquire their employees in writing with respect to their choices between the pension mechanism under this Act or that under the Labor Standards Law. Those employees who have not made a specific choice by the expiration of the prescribed period shall remain to be subject to the pension mechanism under the Labor Standards Law as of the date of enforcement of this Act. Those employees who choose to remain to be subject to the pension mechanism under the Labor Standards Law may choose to be subject to the pension mechanism

under this Act within five years therefrom. ”. But, most of the employer do not happy with the new law. Because under the old scheme, they do not need to pay the workers who do not follow him at least 15 years. It means they do not to pay the retirement payment to over 80% of their workers in the small and medium enterprises.

Now, they need to pay 100% of their workers the retirement payment at the rate of 6% of their monthly wage. According to our questionnaire survey, 69.3% of the employer feel their labor cost is increasing. Therefore, 44.5% employers trying to reduce the wage or reduce the number of workers to save the labor cost.13% of the employers will encourage their workers early retirement with better retirement payment. 66.8% employers will reduce the regular employees; 34.9% employers will increase the dispatched workers; 42.8% employers will increase part time workers; 23.6% employers will increase fix term contract workers; 57% employers will increase outsourcing. 12.3% employers will reduce the elder workers, only 3.4% employers will increase elder workers.46.3% employers satisfy with the new workers retirement scheme, 24.4% employers do not agree the new scheme.

Table 4: The Impact of New Pension Scheme on Business Management

| | Very Disagree | Disagree | No Comment | Agree | Very Agree | Not availabl | Total |
|---|---------------|----------|------------|-------|------------|--------------|-------|
| Increasing labor cost | 2.7 | 10.8 | 12.9 | 47.7 | 21.6 | 4.4 | 100 |
| Reduce Manpower | 4.4 | 31.2 | 24.5 | 29.1 | 5.2 | 5.6 | 100 |
| Encourage Early Retire | 11 | 40 | 25.1 | 15.4 | 2.8 | 5.8 | 100 |
| Stop Wage Increase | 7.1 | 27.9 | 19.6 | 29.6 | 10 | 5.9 | 100 |
| Downsizing | 5.4 | 26.2 | 24.7 | 31.1 | 6.4 | 6.1 | 100 |
| Reduce Wage | 4.6 | 22.5 | 22.1 | 36.3 | 8.4 | 6.2 | 100 |
| Move Overseas | 8.3 | 27 | 28.6 | 22.2 | 7.1 | 6.7 | 100 |
| Pay Pension by Past Profits | 3.4 | 13.9 | 39 | 32.6 | 3.9 | 7.3 | 100 |
| Loan to Pay Pension | 6.5 | 20.1 | 37.5 | 13 | 2.1 | 20.8 | 100 |
| Purchase Commercial Pension to instead New Pension Scheme | 6 | 21 | 39.4 | 10 | 1.6 | 22 | 100 |

CONCLUSION

New pension scheme began effective on July 1, 2005. It becomes a portable pension scheme better than the old unportable and lump-sum payment scheme.

Most of the worker can get their pension from the Labor Insurance Bureau, the labor dispute cases are increasing. The employer are willing to hire elder workers and atypical workers. It is increasing the job opportunities. But, the new scheme did increasing the labor cost, therefore, most of the employer reduce other benefits for the worker. In spite of the above mentioned shortcomings, the new scheme has been accepted by most of the employer, the employee and union officers.

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