

# Payroll Update

## New Pension Law in Taiwan What employees need to know

### Introduction:

Currently most employers in Taiwan contribute only 2% of employee salaries into Company pension fund account. In general, this low contribution rate is not sufficient to cover pension liabilities for employees. Further due to strict retirement criteria, less than 1% of the workers in private sector can qualify for retirement under the old pension system. As protection for employees is limited under the existing pension system, Government has announced a new set of pension rules effective from 1 July 2005. Criteria for retirement under the old pension system requires employees to work for the same employer for more than 15 years and reach the age of 55 or worked continuously for the same employer for 25 years before he or she can qualify for retirement.

The new pension law introduces individual pension fund account concept for employees with effect from 1 July 2005. The new system requires all employers to contribute at least 6% of employee's salary into individual pension fund account. Employee can carry this pension fund account from one employment to the next. The benefits available to the employee

under the new pension system differ from the benefits available under the old pension system. Employees are recommended to study the matter in details prior to making a choice to join new system or to stay with the old system.

### Implication for employee:

#### 1. Make a decision to join new system or stay on with the old system

The new pension system is a defined contribution system, whereas the old system is a defined benefits system. Benefits available under the two systems are different. Employees are recommended to take the following factors into account in evaluating whether to join the new system or to stay on with the old system.

Factors	Comment
Current Age and number of years left till date of retirement	If you are close to retirement age and you foresee retiring from current employment in near future, you should consider choosing to join the old pension system.
Probability of resignation or retrenchment	If you are at risk of being retrenchment or if

	you foresee possibility of resigning from current employment, you should consider joining the new pension system.
Probability of Company survival till date of retirement	If your employment could be terminated due to business risk, you should consider joining the new pension system.
Expected Rate of Return from individual pension fund account	The higher the yield on individual pension fund account, the better the final retirement benefits under defined contribution plan (new system) .
Ceiling on Maximum Payout	The old system limits retirement benefits to a maximum amount of 45 months of salary. The new system being a defined contribution system has no limit on final benefits.

Expected future salary raise	The higher the expected future salary raise, the better the final retirement benefits under defined benefits plan (old system).
------------------------------	---

**2. Make a decision on whether or not to voluntary contribute additional 6 % to the individual pension fund account**

In deciding whether or not to contribute additional amounts to the new system, employee may take the following factors into consideration

Factors	Comment
Cash flow consideration	Individual pension fund cannot be pledged or ceded to a third party. Once contributed, fund can only be drawn out upon reaching the age of 60.
Tax consideration	Amount voluntarily contributed to the pension fund account can be used to claim deduction/exemption

	for personal income tax. Accordingly voluntary contribution can help you to reduce personal income tax burden.
Expected Rate of Return from individual pension account	The new Pension Law guarantees an investment return rate on the individual pension fund account. If the rate of return on the pension fund account is less than 2 years bank fixed deposit rate, Government will subsidize to make up the shortfall.

**Recommendation for employee:**

Employees are recommended to use this opportunity to do some study for planning for one’s retirement. One should also evaluate whether or not to join the new pension system. A decision must be made prior to 30 June 2005. If no election is made, employees would be deemed to have elected the old system. If in doubt, please consult Company HR specialist for assistance or contact one of the GT consultant as per below:

Jay Lo  
 Partner  
 Ext 314  
[Emailto:jay@gti.com.tw](mailto:jay@gti.com.tw)

Lita Tseng  
 Manager for Payroll Services  
 Ext 209  
[Emailto:lita@gti.com.tw](mailto:lita@gti.com.tw)

T 02- 27582688  
 F 02- 27295993  
[www.gti.com.tw](http://www.gti.com.tw)

This update is issued in summary form exclusively for the information of clients and staff of Grant Thornton and should not be used or relied upon as a substitute for detailed advice. Accordingly Grant Thornton accepts no responsibility for any loss that occurs to any party who acts on the information contained herein without further consultation with Grant Thornton.

6th Floor Sec 4, No. 560  
 Chung Hsiao East Road  
 Taipei

**THE TAX LEGISLATION IS COMPLEX - YOU ARE STRONGLY RECOMMENDED TO SEEK PROFESSIONAL ADVICE BEFORE UNDERTAKING BUSINESS TRANSACTIONS IN TAIWAN**