

# Payroll Update

## New Pension Law in Taiwan

### What employer needs 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. This new system is expected to increase

cost of employment for employers and the cost could be substantial.

#### Implication for employer:

##### 1. Issue election papers to employees

Government's Labor Department is scheduled to issue sample election papers to employers for distribution to their employees by April 2005. Employee upon receiving the election papers should indicate choice to join the new system or the old system. The deadline for completing the survey is 1 day prior to the implementation of the new system being 30 June 2005.

##### 2. Registering individual pension fund account for employees

For existing employees electing to join the new pension system, employer needs to complete required registration within 15 days from effective date of implementation of the new Pension Law.

For newly setup entity after 1 July 2005, employer needs to complete required registration within 15 days from date of formation of the entity.

##### 3. Compute and top up prior period pension liability

In accordance with Article 13, employer needs to do a pension computation and adjust pension fund contribution rate to top up prior period pension liabilities within 5 years. Government has setup a website



with built in formula to assist businesses to compute prior period pension liability. The website address is

-<http://web.cla.gov.tw/trial/lr.asp>

#### **4. May elect to settle prior period pension liabilities with employees**

Employer may settle prior period pension liabilities with existing employees at the rate not less than the standard prescribed by the Labor Standards Law. Once prior period pension liabilities for all employees have been settled, employer can close Company pension fund account and draw out any excess fund.

#### **5. For employer employing more than 200 employees, employer may elect to setup pension insurance instead of pension fund**

If more than 50% of the employees agree to elect pension insurance instead of pension fund, employer may purchase pension insurance from private sector instead of joining Government managed pension fund system. Employer should seek prior-approval from Government before implementing pension insurance scheme. Contribution by the employer for pension insurance scheme cannot be less than 6%. The benefits to be provided under the pension insurance scheme cannot be less than the benefits provided under Government managed pension fund.

#### **6. Employer should update Bureau of Labor Insurance on salary changes twice per annum**

Salary adjustment made for the period from February to July should be reported to Bureau of Labor Insurance prior to end of August. Salary adjustment made for the period from August to January should be reported to Bureau of Labor Insurance prior to end of February.

#### **7. Employer should report change of employee status**

Employer should report new recruit, resignation or death of employee to Bureau of Labor Insurance within 7 days from occurrence of the event.

#### **8. Expatriates working in Taiwan**

The new Pension Law is not applicable for expatriates working in Taiwan.

#### **Recommendation for employers**

Employer should encourage employees to participate in seminars conducted by Grant Thornton or other outside agencies to obtain a basic understanding over the new pension regulation. Further employer should check and ensure that it will comply with relevant regulations.

Penalty for non-compliance with the new Pension Law is severe, please consult one of the following GT personnel if you have any question relating to the new pension system.

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