

# Development, Reform and Perspectives on Social Insurance in Taiwan\*

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## I. FOREWORD

This paper will review the development and survival of social insurance in Taiwan. The experiences of Taiwan's social insurance system will be taken as an example to examine how this system responds to global challenges. The problems it has encountered and the strategies that have been employed will be discussed. The main concerns of this paper are reforms and perspectives of social insurance systems in Taiwan. An historical overview and an introduction of the current system are provided and related problems and current reforms of this system are discussed. This paper will then analyze some distinct characteristics of the system, and finally examine the ongoing domestic and international factors that influence the social insurance policy in Taiwan.

## II. HISTORICAL OVERVIEW<sup>1</sup>

### *1. Before 1958 – The Promulgation of the Labour Insurance (LI) and Government Employees Insurance (GEI)*

Taiwan was under Japanese colonization from 1895 to 1945. Although Japan introduced Health Insurance in 1922 and a pension system for workers in 1941 in the

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1. See Guan-Cheng Hsu, 'Historical Review of Social Insurance in Taiwan', Taipei, 2000; Ming-Cheng Kuo, *Social Security System and Social Law*, Taipei, 1997, pp. 53-76; Ming-Cheng Kuo, *Alterssicherung*

homeland, it never introduced these kinds of schemes in Taiwan during its occupation. Taiwan was taken over by China after World War II. However, before the ruling KMT (Kuomintang) Government lost power to the Chinese Communist Party in the mainland in 1949, China had not exercised any kind of social insurance scheme except for a few limited experimental programmes, which were on a very small scale. On the other hand, there were several social plans introduced before and during the Chinese Civil War period. The KMT government seemed to be ambitious in constructing a social insurance system at that time. As the Constitution of the Republic of China, which has been in effect since 1948, states, 'The State shall establish a social insurance system to promote social welfare.' However, the KMT Government did not have any chance to implement social insurance policies or to practice social insurance planning in Mainland China.

The planning of a social insurance system did not take place until 1949, the year that the KMT re-installed their regime in Taiwan. The ruling Government introduced a labour insurance programme on 1 March 1950, the day when Chiang Kai-shek had his presidential re-inauguration. This programme was the first social insurance programme in Taiwanese history. It is worth noting that Taiwan was an agricultural society at that time, and due to warfare and hostility between Taiwan and Mainland China, was unstable.

Three dimensions of the introduction of this programme are worth noting. First, this programme was initiated not by the Legislative Yuan (the parliament), but by an administrative order. Second, until 1958 the coverage of the insured was limited to employees of Central and Local Government-owned enterprises, blue-collar workers in private enterprises with more than ten employees (limited to the first and second sector), and the self-employed with a membership in so-called occupational unions. Third, the benefits were limited. For instance, it was not until 1956 that medical benefits were introduced, while outpatient benefits were still excluded. Old age/invalidity/survivor benefits were paid in a lump sum rather than on a weekly or monthly basis.

The Soldiers Insurance (SI), introduced in the same year (1950), was also initiated by an administrative order at first. In 1953, the Soldiers Insurance Act (SI Act) was approved by the Legislative Yuan and became the first social insurance law in Taiwan.

In 1958, the Labour Insurance Act (LI Act) was introduced. Throughout this legislation, the coverage of the insured was extended. White-collar workers of private enterprises with more than ten employees could now join, and private enterprises with less than ten employees could also join the scheme voluntarily. In the same year, the Legislative Yuan promulgated the Government Employees Insurance Act (GEI Act). Under this programme, civil servants, teachers, and other white-collar employees of public

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*in Taiwan – Grundprobleme sozialer Sicherung in einem jungen Industriestaat*, Baden-Baden, 1990; Ming-Cheng Kuo, 'Social Change and Social Security in Taiwan: Lessons for the PRC', in Krieg and Schädler (eds.), *Social Security in the People's Republic of China*, Hamburg, 1994.

educational institutions were covered. The GEI was more generous in its provisions, with outpatients' benefits being available from its implementation, unlike LI which did not introduce such benefits until 1970. Like LI, the old age/invalidity/survivor benefits were also paid in a lump sum under the GEI. However, it also included the Pension Scheme for Government Employees (PSGE) which provided old age benefit for all government employees, including career soldiers, civil servants and educators in public educational institutions.<sup>2</sup>

The enactment of the LI and GEI Acts in 1958 signaled Taiwan's achievement in establishing its social insurance system. The legislation not only provided legitimacy to the social insurance system, but also symbolized the support from society for this system. However, the legitimacy of the Legislative Yuan itself was controversial. Its members were elected based on a mainland agenda and the representatives were almost all from Mainland China.

In conclusion, the achievements of the social insurance system at this stage was based on the government's willingness and a consensus, although in name only, between the ruling party and political elite.

## *2. 1959-1994 – Before the Launch of National Health Insurance*

Some important reforms in the social insurance system occurred during 1959-1994, especially in schemes for labourers and government employees. The most important reform in LI was the expansion of the coverage of the insured. The 1979 Amendment extended the coverage of the compulsory insured to employees of private enterprises with more than five employees, whilst private enterprises with less than five employees were covered on a voluntary basis. For the first time this scheme included labourers not only in the first and the second sectors but also in the third sector. Another important reform to the LI in this period was the introduction of outpatient benefits in 1970.

Although there was no fundamental amendment to the GEI Act during this period, some related programmes targeting government employees and their family members were introduced. These included the Insurance for Retired Government Employees in 1965, the Health Insurance for Government Employees' Family Members in 1982, and the Health Insurance for Retired Government Employees and their Spouses in 1985.

There were also new social insurance schemes targeting other groups of people. These included the Insurance for Educators in Private Educational Institutions (IEPEI) in 1980, Health Insurance for Farmers (HIF) in 1975, Health Insurance for Chief Executives of Villages and Districts and Council Members of Local Areas in 1989, and Health Insurance for Low-income Families in 1990. Among these schemes, only the

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2. This privileged system for soldiers, public servants and teachers was a legacy of the Chinese mainland period. The payments could be given either in a lump sum or as a pension or a certain combination between the two in respect of the insured person's choice.

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two schemes of IEPEI and HIF were enacted by the Legislation Yuan, with the others being based upon administrative orders.

The introduction of accident insurance for students in 1975 was also a remarkable achievement in this period. This scheme, regulated by administrative order without enactment by the Legislation Yuan, was administered by local government and the insured were covered on a mandatory basis. This scheme was sub-contracted to private insurance companies.

### *3. Post-1995 – The Implementation of the National Health Insurance (NHI) Programme*

The National Health Insurance (NHI) programme was enacted by the Legislative Yuan in 1994 and came into effect on 1 March 1995. This was the first universal social insurance scheme that covered all groups of the population. The NHI is administered by a single governmental department, the newly established National Health Insurance Bureau, under the supervision of the Department of Health of the Executive Yuan. Instead of being regarded as a government agency, the Bureau functions as a state-owned enterprise.

The implementation of this programme had a significant impact on the social insurance system, replacing all medical benefits previously provided by other social insurance schemes to become the sole means of providing medical care to almost all inhabitants in Taiwan.

Other important achievements in social insurance in this period included the implementation of unemployment benefit attached to the LI Act in 1999 and the amendment of the Pension Scheme for Government Employees (PSGE) in 1995. The latter is financed by premiums rather than government revenue, and is thus in accordance with the contributory principle of social insurance. The latest reform to the social insurance system is the enactment of the Government Employees and Educators Insurance Act (GEEI Act) of 2000, which merges the schemes for government employees and educators in private educational institutions.

## III. THE CURRENT SYSTEM<sup>3</sup>

### *1. A Social Insurance Scheme for All – The National Health Insurance<sup>4</sup>*

One important achievement of the NHI is that it has increased the number of people covered under the social insurance system for health protection. The official statistics

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3. See Mu-Xing Ke, *Social Insurance*, Taipei 2000.

4. See Win-Huei Cheng, 'Reform and Perspectives on Health Insurance'. Bureau of Labour Insurance and Bureau of National Health Insurance.

indicated that in 1994, the year before this scheme was implemented, the number of people included in the social insurance system was 10.05 million, less than half of Taiwan's population, whereas under the NHI Act all Taiwanese inhabitants (including all citizens and foreign workers), in principle, were covered by the social insurance scheme. In practice, however, only those who have paid contributions are entitled to the benefits. In 1995, the number of the insured under the NHI amounted to 19,123,278 and has increased to 21,400,826 in 2000, equivalent to 96 per cent of the total population. The last group of people to be included in this scheme, namely soldiers, in 2001, has further increased the percentage of the insured population.<sup>5</sup>

Despite this, there is still about 4 per cent of the population who fail to pay their insurance contributions and are thus not protected by the NHI. These people are more likely to be the most economically disadvantaged groups and therefore raises the issue of equity and equality. According to the Act, those who live in low-income families are exempt from paying contributions. This group of people accounts for only 0.7 per cent of the population due to a strict threshold.

In principle, the National Health Insurance should include all necessary medical benefits. However, some items, such as costs for transport to hospitals, registration fees, dentures, false eyes, glasses, hearing aids, and wheelchairs, are not included. In addition, some items designated by the Department of Health or defined as high-tech items are also excluded.

Another important issue concerning benefits is the adoption of a co-payment system, which is a new system different from that adopted by the LI and GEI Acts. According to the NHI Act, the co-payment for outpatient services is 20 per cent of the total cost for general cases, while for exceptional cases, such as patients who go to see a doctor in a medical centre without seeing one in a local surgery first, could be personally responsible for up to 50 per cent of total costs. However, these regulations have not been put into effect. In practice, the co-payment is fixed at a flat-rate rate: NT 50 dollars for a patient treated in a local surgery; NT 100 dollars if a patient goes directly to a district hospital; and NT 150 dollars for a patient who goes directly to a medical centre. Since the regulations are not exactly in accordance with the law, the Control Yuan<sup>6</sup> urged a rectification in 2001.

The financial resources of the National Health Insurance come from the contributions. Both employees and employers share the contributions, with a subsidy from the

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5. Because of the confidentiality of national defense, the amount of soldiers is not given out. According to estimates, there are probably 400,000 people.

6. The authority of the commissioner of the Control Yuan is analogous with an ombudsman, their main task is to investigate the dereliction or illegality of government officials and correct the administration of the government.

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government. The share of contributions varies by the classification of occupations. These include:

- (1) Employees in private sectors: The share of the contribution for the employer, the insured, and the government is 60 per cent, 30 per cent, and 10 per cent respectively.
- (2) Government employees: The share of the contribution for the insured and the government (both as the Government and as an employer) are 40 per cent and 60 per cent respectively.
- (3) Craft workers and temporary workers: The share of the contribution for the insured and the government are 60 per cent and 40 per cent respectively.
- (4) Farmers, fishermen and dependents of veterans: The share of the contribution for the insured and the government are 30 per cent and 70 per cent respectively.
- (5) Veterans (restricted to career soldiers), members of low-income families: The government subsidizes all contributions.

The current contribution rate is 4.25 per cent of wages. The insured have to pay the contribution for themselves and for up to three of their dependents. The share of the contribution for the dependents is the same as the wage earner, with an exception for the dependents of veterans. On the other hand, employers have to share the contributions of their employees, as well as their employee's dependents. The employers' share of contribution for employees' dependents is calculated on the basis of the average number of dependents per household, which is 0.88 persons at present.

Generally speaking, the financial situation of the National Health Insurance has been kept stable. However, a deficit appeared in 2000 for the first time and has attracted public attention.<sup>7</sup> The deficit resulted from an increase in medical expenses and arrears of contributions, not only by the insured and employers, but also, more importantly, by all levels of local governments. Local governments have difficulties in paying their share of the contribution due to their insufficient revenue, thus resulting in huge arrears. If this problem were solved, the current financial situation would be improved. Therefore, whilst it is important to deal with the problem of governmental arrears, it is debatable if the assignment of such financial responsibility to local governments to subsidize health contributions is appropriate.

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7. In 2000, the total revenue of the National Health Insurance was NT 287,722 million dollars, in which 207,469 million dollars came from contributions paid by the insured and employers, and the rest was subsidies from different levels of government. However, the total expenditure for medical expenses was 275,936 million dollars in the same year.

## 2. Social Insurance for Special Groups

### (1) Labour Insurance (LI)<sup>8</sup>

This programme covered the largest number of people before the promulgation of the NHI. It is administered by the Bureau of Labour Insurance under the direct command of the Council for Labour Affairs of the Executive Yuan. The number insured was 7,915,789 in 2000. Workers who are aged between 15 and 60 and who fall into one of the following groups are insured compulsorily:

- Workers employed by an enterprise with more than five employees;
- Blue-collar labourers who work for the government or in educational institutions and are excluded from the GEEI;
- Persons receiving training in registered vocational training institutes;
- Fishermen with a Class A membership of the Fishermen's Association, seasonal and temporary workers, and craft workers.

Additionally, employers and persons employed in private enterprise with less than five employees may also join the programme voluntarily.

Labour Insurance has mainly focused on cash payments, after the implementation of the NHI. For medical benefits for work injuries and occupational diseases, the LI is responsible *in praxis*, however, it is entrusted to the National Health Insurance Bureau. The LI now provides six kinds of cash benefits, including maternity allowance, sickness and injury allowance, old age benefits, invalidity benefits, survivor benefits, and unemployment benefits. Maternity allowance is equivalent to 30 days of insured wages. Sickness payment is equivalent to 50 per cent of the insured wages for up to one year. In the case of work accident or occupational sickness, the payment is 70 per cent of insured wages for the first year, followed by 50 per cent of insured wages for the next year, for a period of no longer than two years. In addition, the enactment of the Work Injuries Victims Protection Act in 2001 means beneficiaries may, when sickness payment is expired, apply for a living allowance for up to five years, and a career allowance if applicable.

Unlike the industrialized countries, the old age, invalidity and survivor benefit are paid in a lump sum benefit instead of a pension. An insured person may claim old age benefits for each of their insured years calculated on the basis of their average insured wages of the last three years. The maximum payment is 45 months of insured wages, or

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8. See Bureau of Labour Insurance.

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50 months insured wages in an exceptional case. The eligibility criteria for the old age benefits are as follows:

- (a) A male insured aged 55 or over and has paid contribution for over 15 years, or aged 60 or over and has paid contribution for over one year;
- (b) A female insured aged 55 or over and has paid contribution for over one year;
- (c) An insured aged 50 or over and has paid contribution for over 25 years;
- (d) An insured who has worked in the same enterprise and has paid contribution for over 25 years.

The old age benefits paid by the LI in 1999 was NT 62,340 million dollars, the average payment in each case was NT 604,150 dollars. In addition to the above criteria, the individual also has to have valid proof of being insured at the time he/she is claiming the benefit.

Invalidity benefit payments vary with the degrees of invalidity. The minimum level of benefit is equivalent to 30 days of insured wages, while the maximum is equivalent to 1,200 days of insured wages. If the invalidity is caused by work accident or occupational sickness, the benefit will be increased by 50 per cent.

In respect of survivor benefits, if the insured has paid contributions for more than two years, the payment is equivalent to 30 months of insured wages. If the insured paid less than one or two years, the payment is equivalent to 10 and 20 months of insured wages respectively. If death is caused by work accident or occupational sickness, the payment will be equivalent to 40 months of insured wages. Apart from survivor benefits, a payment equivalent to five months of insured wages is payable for funeral expenses.

Unemployment benefits are only targeted at employees, the self-employed are excluded. An insured person who meets all of the following conditions is entitled to unemployment benefits:

- (a) Being laid off involuntarily;
- (b) Having paid contribution for at least one year;
- (c) Having registered in a public employment centre for more than seven days and is unemployed and not on a training programme.

An unemployed person will receive unemployment benefits 15 days after he/she registered in a public employment centre. The payment is equivalent to 50 per cent of the average insured wages. The maximum period of unemployment benefit is six months for those who have paid contributions for less than five years; 12 months for those who have paid contributions for five to ten years; and 16 months for those who have paid contributions for more than ten years.

The Labour Insurance, which covers ordinary risks and occupational risks, is financed by contributions. The contribution rate for ordinary risks is 6.5 per cent of



insured wages, while the contribution for occupational risks is borne entirely by the employer. Since the self-employed are excluded from the entitlement of unemployment benefits, the contribution rate for them is deducted at 5.5 per cent of insured wages. The share of an employee's contribution for ordinary risks is 70 per cent for the employer, 20 per cent for the insured, and 10 per cent for the government. For the self-employed and workers who do not have definite employers, the government shares 40 per cent of the contribution, while the insured shares 60 per cent of it.

The financial situation of the LI has been kept stable since its implementation. By the end of 1999, the LI fund reached more than NT 400 billion dollars, equivalent to four times of the total amount of payments due for that year.

(2) Government Employees and Educators Insurance (GEEI), Soldier Insurance (SI), and the Pension Scheme for Government Employees (PSGE)<sup>9</sup>

The military and civil servants and educators of public educational institutions are protected not only by the GEEI but also by the PSGE. The GEEI is trusted to the Bureau of Central Trust for Government Employees Insurance, under the supervision of the Ministry of Treasury. The PSGE is managed by the Board of Management for the Public Service Pension Fund, which is under the supervision of the Examination Yuan. The PSGE was converted from a tax-funded scheme into a contributory one in 1995, thus sharing the same principle of the social insurance system. As such, the military and civil servants and educators of public educational institutions are protected by a two-tier social insurance system.

The GEEI, which was introduced in 1999, is a merger of two schemes of GEI and IEP EI, thus covering two groups of people, civil servants and educators both of the public and private educational institutions. The number of insured was 629,395 in 2000. Servants and employees in the military are covered under the SI. The number of insured, which is considered confidential and not to be publicized, is about 400,000.

Both the GEEI and the SI provide important benefits, including old age benefit, invalidity benefits, and survivor benefits. The amount of old age benefit is calculated based on the years of service. An insured who has paid contributions for 30 years is entitled to the maximum amount of old age payment, which is 36 months of average insured wages. The insured wages is equivalent to about 60-70 per cent of the real income.<sup>10</sup>

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9. The SI is considered confidential and not to be publicized. The PSGE, also has not got complete information, but we can find much information from an investigation conducted by the Control Yuan in 2001.

10. In 2000, the number of cases of cash benefits about old age are 14,365 people. The average case is NT 1,347,406 dollars. The average monthly salary of insured persons is NT 29,209 dollars.

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Like the LI, the insured will lose their entitlement to old age benefits if their status as an insured is not valid when they reach the eligible age. The No. 434 Constitutional Interpretation of the Grand Justice Assembly,<sup>11</sup> which targets the GEI, does not declare that such lack of protection for vesting right is against the Constitution. However, it does declare that this regulation is against the constitutional principle to protect property rights, and is thus urging an amendment for this scheme. Under the new GEEI Act, a person may be entitled to receive old age benefit before they retire. An insured person aged 55 or above who has paid contributions for more than 15 years is entitled to receive old age benefit, whether he/she retires or not. However, an insured person will not be entitled to any benefit for old age if they withdraw from the scheme before meeting the abovementioned criteria. This is a serious problem that the government should be dealing with soon.

The payment of invalidity benefits is equivalent to 6, 15 or 30 months of insured wages, depending on the degree of invalidity. If the invalidity is caused by work injury, the benefit is 8, 18, or 36 months of insured wages. For survivor benefits, the amount is equivalent to 30 months insured wages, or 36 months of insured wages if it is due to a work accident. The old age benefits paid by the GEI (the first-tier protection) was NT 17,788 million dollars in the same year, the averaged case is NT1,347,406 dollars.

The regulations of the SI regarding benefits are similar to that of the GEEI. However, the discharge benefits is more generous than that of the GEEI, being equivalent of up to 45 months of insured wages.

The abovementioned benefits are all paid in a lump-sum basis. However, entitlement to old age benefit earned by contributions made before 1995, may be re-invested into a Government administered savings scheme, with an interest rate of 18 per cent.

The PSGE provides a generous payment for retirement. Before its amendment in 1995, a civil servant who had paid contributions for 30 years could, by his/her preference, receive a payment for retirement which is equivalent to 81 months of insured wages in a lump sum, or a monthly pension of 90 per cent of insured wages. Furthermore, beneficiaries may choose to receive certain proportions of their old age benefit in a lump sum, and leave the remainder as monthly payments. Again, re-investment into the government administered savings scheme is still an option for those entitled to old age benefits earned by contributions made before 1995. The amendment in 1995 extended the limit for insured wages, thus increasing benefit levels by 50 per cent. Based upon the reform in 1995, the old age benefits for the years of service after 1995 will be calculated according to the new scheme. With the new regulations a retired Government employee, with 35 years of service, can claim a lump sum benefit as high as 106 months basic salary or a monthly pension of 140 per cent of basic salary. According to

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11. The Grand Justices Assembly is a judicial organ in charge of constitutional review, an organization similar to the constitution court.

an investigation conducted by the Control Yuan in 2001, the expenditure for the PSGE was as high as NT 176,036 million dollars in 1999.

Under such a two-tier protection system, a civil servant may receive generous retirement benefits under 50 years of age. For a civil servant, the income replacement rate for full old age benefits was 80-90 per cent of his/her final salary before 1995. This rate has been increased to more than 100 per cent, under the Amendment of 1995.<sup>12</sup> In addition, it provides a more favourable retirement benefit to judges and public prosecutors than an ordinary civil servant.<sup>13</sup>

With regard to the financing of the GEEL, the insured and the government share 35 per cent and 65 per cent of contributions respectively. If the insured is an educator in a private educational institution, both the government and educational institutions will share 32.5 per cent of the contribution. For SI, the Government pays all contributions for sergeants and soldiers. As the receipts are not enough to meet the expenditure, it needs extra governmental subsidies.<sup>14</sup>

The PSGE, however, was initially financed by Government revenue up to 1995. The Amendment of 1995 increased rather than decreased the financial burden of the Government. After the amendment, the Government is responsible for subsidizing the contribution, and old age benefits that the insured have earned by contributions made before 1995. In addition, the subsidies to the government administered saving scheme are also a huge financial burden to the government. For such a saving scheme there were subsidies of NT 18,460 million dollars in 1999 (excluding the subsidies for the military servants)

### (3) Farmers Health Insurance (FHI)

The Farmers Health Insurance (FHI) is a social insurance scheme targeting farmers. The FHI does not have its own administrative organization and is entrusted to the Bureau of Labour Insurance. Its medical benefits were abolished when the NHI was introduced in 1994, leaving it responsible for maternity benefits, invalidity benefit and death allowance. The amounts of maternity benefits and survivor's benefits are equiva-

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12. See Kuo, 'Harmonization and Integration of Pension System', Taipei, 1999, and the investigation conducted by the Control Yuan in 2001.

13. According to the Civil Servant Retirement Law, the rule in which civil servants who reach 65 years of age shall be compelled to retire does not apply to judges. Some say such a rule has a constitutional basis since it is stipulated in the Constitution that being a judge is a lifetime career. This view has been criticized severely but has not changed the practice. According to the Rules relating to Retirement Promotion of Judges, judges and prosecutors can retire voluntarily while the retirement benefit becomes double for retirees who are between 65 and 70 years of age.

14. In 1999, the GEI's total receipts were NT 5,173 million dollars (the premium is 5,164 million dollars). The total expenditures were NT 7,841 million dollars (the cash benefits were 7,183 million dollars).

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lent to one and 15 months of insured wages respectively, while invalidity benefits are up to 40 months of insured wages depending on the degree of invalidity.

In the year 2000, there were 1,800,059 insured by the Farmers Health Insurance.

The insured pays 30 per cent of the contributions, with the remaining 70 per cent being subsidized by the Government. The insured wages of the FHI was fixed at NT 10,200 dollars in 2000, and the flat-rate contribution is as low as NT 260.1 dollars. Such a low level of contribution is insufficient to cover benefit payments, thus resulting in a serious deficit to be subsidized from Government revenue.<sup>15</sup> The enormous subsidy from the Government for both contributions and deficits signals that the FHI has basically departed from the principles of social insurance.

#### IV. PROBLEMS AND REFORMS<sup>16</sup>

##### *1. The Protection for Work Injury and Occupational Diseases*

The risks of work injury and occupational sickness are in principle covered under the LI. However, as the provision of medical benefits has been entrusted to the NHI; in practice, only sickness payment, invalidity benefits and survivor's benefits, which are all cash benefits, are provided by the LI.

The problem regarding medical benefits will be discussed in the following section. The cash benefits, including invalidity benefits and survivor's benefits, also have serious problems as they are provided in a lump sum basis. This problem will also be discussed in the following section.

In 2001 the Work Injuries Victims Protection Act (WIVPA) was introduced. Employees suffering from work injuries are now entitled to an allowance for living expenses for up to five years, in addition to the lump-sum payment provided by the LI. This allowance could be regarded as a long-term sickness payment, or a supplemental benefit for disability. However, the problems of disable workers cannot be fundamentally solved unless a disability pension is introduced. The new law also contains regulations about vocational training for victims of work injuries, such as offering living

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15. In 1999, for example, the total revenue from contributions was NT 5,656 million dollars, while the total expenditure was as high as NT 9,890 million dollars, with the government responsible for subsidizing the NT 4,234 million dollar deficit.

16. See Huei-Ling Wang, 'Actuality and Perspective of Occupational Injury Insurance in Taiwan', *Bulletin of Labour Research*, Vol. 10, 2001, pp. 1-21.

17. See Cheng (see *supra* note 4); Ming-Cheng Kuo, *Alterssicherung in Taiwan*, 1990 and *Social Security System and Social Law*, 1997.

expenses when they are in vocational training. However, it has not made significant progress in the field of rehabilitation, which remains a problem.

## *2. The Protection for Sickness*<sup>17</sup>

Through the NHI almost all the inhabitants are protected by the social insurance system for health. In 2001 the NHI extended its coverage to military servants. This signals not only the expansion of the NHI, but also the growing support and trust for it.

Following the request by the legislators, the process of reform on the NHI started immediately after its enactment. However, the achievement is so far limited. The enormous deficit is a signal that further structural reform is not only necessary but also urgent. It is under these circumstances that the Department of Health has proposed a plan of 'Second-Generation Health Insurance'. Although practical strategies have not been addressed, there is no doubt that the following issues are at the core of the reform.

### (1) The Problems Concerning Those Insured Who Are not Able to Pay the Contribution

According to the NHI Act, all inhabitants with very few exceptions must join this scheme and pay the contribution. This raises the issue whether such a regulation of compulsoriness violates the Constitution. The No. 472 Interpretation of the Grand Justices Assembly deals with this issue. It declares that the regulation of compulsoriness is not unconstitutional, but it is unconstitutional to suspend medical benefits for those who are not able to pay contributions due to their economic situations. This interpretation resulted in an amendment of the NHIA. According to the new regulations, the inability of the insured to pay contributions must not be taken as a cause to reject providing benefits. However, it is doubtful if this measure is helpful for those who never pay contributions. In practice, they are not treated as being insured, just like before. As such, the interaction between the NHI Act and the Social Assistance Act (SA Act) in providing medical benefits deserves some discussion. The articles concerning medical benefits in the SA Act have remained in effect after the enactment of the NHI Act. Therefore, local governments have to take the responsibility for paying the share of contributions of those who are unable to pay due to economic reasons. This is an important issue that needs to be addressed.

### (2) The Problem Concerning Equal Treatment

The implementation of the NHI has reduced the welfare gap between different occupational groups. However, this scheme has created the problem of inequality as the proportions of contributions shared by the insured vary with their occupational status. The monthly contribution for a farmer is about NT 245 dollars and for a self-employed

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about NT 508 dollars, while an employee with a medium income has to pay about NT 1,121 dollars per month (including the share of him/herself and his/her employer).<sup>18</sup>

Although the Grand Justice Assembly has not made any constitutional interpretation particularly targeting this issue, its No. 485 Interpretation regarding soldiers' housing does offer some references. It declares that public policies must not over-emphasize the differences between occupations and status, or it would be against the 'principle of equality' set by the constitution. This declaration may provide a source of guidance in solving the problems of inequality discussed above.

### (3) The Problem Concerning the Monopoly Organization

The establishment of a single State-managed system has raised the issue of centralization and nationalization in the Taiwanese social insurance system. This approach might be regarded as a reverse trend to when the State-owned business in Taiwan encountered serious criticism. The organization of a single State-managed system rules out the possibility of competition and might have negative impacts on the quality of services. The Grand Justice does not declare this single system unconstitutional, but has asked related governmental departments to evaluate this approach and to review the possibility of creating a system of multiple organizations.

### (4) Issue Concerning the Principle of 'The Rule Of Law'

With the enactment of the NHI Act, regulations concerning medical benefits, which were seen in all social insurance legislation, have been integrated into one Act. However, positive benefit-regulations are unclear so that the government might manipulate them. In this regard, the No. 524 Interpretation of the Grand Justice Assembly declares that the principle of 'the rule of law' shall apply to the NHI. Consequently, the NHI Act has become unconstitutional as the Government failed to amend it within two years.

### *3. The Protection for Old Age, Invalidity and Death*<sup>19</sup>

The old age/invalidity/survivor benefits were introduced as early as 1950 when the LI was implemented, much earlier than the introduction of medical benefits. However, the reforms of these benefits have been limited compared with those of medical benefits.

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18. Although 60 per cent is shared by employers, 30 per cent by employee; however, the contributions essentially are a kind of salary. Therefore, the burden of payment is primarily on the employees.

19. See Chang and Gesk, 'The Old Age Security System and Planning of Pension System', Taipei 2001; Kuo, 1990 and 1997 (see *supra* note 17).

So far the reforms of these benefits have only targeted special occupational groups, especially Government employees.

As mentioned earlier, the civil servants in Taiwan may retire after 25 years of service (20 years for military servants) and claim old age benefits regardless of their age. Put together with the first-tier social insurance benefit and the second-tier benefit from PSGE this means the total retirement benefits for Government employees, educators and military servicemen might be near to or equal to their final salary, in some case even higher than their final salary.

In contrast, the old age/invalidity/survivor benefits for labourers are very limited. As mentioned earlier, the old age/invalidity/survivor's benefits provided by the LI are still paid as a lump sum rather than as a pension. A pension benefits approach has been proposed and discussed for 30 years. The KMT Government, which stayed in power for half a century until 2000, failed to implement this proposal.

In order to deal with the problem of this welfare gap between Government employees and ordinary labourers, the KMT Government enacted the Labour Standard Act<sup>20</sup> and introduced a mandatory scheme based on employers' liability in 1984. However, this measure has failed to close the gap. The KMT Government proposed another plan which contained a supplementary pension benefit and an individual retirement account to replace the employer's responsibility. However, the loss of power by the KMT Government in the presidential election of 2000 has altered the schedule of the proposed plan.

The DPP Government, which came into power in 2000, also once proposed a plan to implement individual retirement accounts.<sup>21</sup> However, in a more recent meeting in 2001, the Meeting on Economic Development hosted by the President, proposed a system of 'three tracks go together'. This new system offers three options including: Individual retirement accounts; supplementary pensions; and portable pensions insurance, from which labourers may choose. However, the implementation of this system may encounter difficult technical problems.

Despite the KMT Government planning a nationwide pension scheme since 1994, there has been little significant progress. The system proposed by the KMT Government is based on a flat rate contribution and flat rate benefit, covering all the employed population and providing old age benefits at a level of basic living standards. Based on this proposal, the full pension will be equivalent to about NT 9,000 dollars per month. After the DPP came to power, different proposals have been recommended by the new government. These include a universal old age allowance funded by revenue from a consumer tax, and a scheme of a mixture of individual retirement accounts (mainly to

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20. See Ming-Cheng Kuo, 'The Reform of the Severance Pay and Retirement Benefit Regulations in the Labour Standards Act', *Bulletin of Labour Research*, Vol. 9 (2000).

21. See Cheng (see *supra* note 4).

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provide old age benefit) and social insurance (mainly to provide disability and survivor benefits). However, by the end of 2001, these proposals have not gained much support from the public, and no further plans have been made for implementing these proposals.

All this clearly shows, that the old age security system is now, and also in the future the most important problem in the field of social policy, especially social insurance. For the reform of the old age security system, what the DDP Government needs to focus on are the following:

- to reform the excessive old age security system for the government employees;
- change the old age lump sum benefit of the Labour Insurance into a pension system;
- to substitute the employer liability of retirement benefits to a supplementary pension or other scheme.

After the above three reforms are achieved, it will be clearer whether and to what extent Taiwan needs a national pension.

#### *4. The Protection for Unemployment*<sup>22</sup>

The implementation of unemployment insurance in 1999 is an important reform in the history of social insurance system in Taiwan. However, this benefit faces several problems. Firstly, the implementation of this benefit is based on regulations stipulated by the Council for Labour Affairs, thus raising the issue of the 'Rule of Law'. In this regard, to introduce an act approved by the parliament will solve the problem. Second, unemployment benefits should be operated in co-ordination with occupational training schemes and employment service schemes. However, how to integrate these schemes is yet to be discussed and planned. Third, the introduction of unemployment benefits raises the issue of whether and to what extent employers should still pay severance pay for their dismissed employees.

## V. CHARACTERISTICS

### *1. Political Structure and Political Development as Decisive to Policy-making*

It is worth noting that when Taiwan started to establish its social insurance system in 1950, society was in chaos and still largely agricultural. The Taiwanese social

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22. See Chan, 'Reform and Perspectives on Unemployment Insurance', Taipei, 2000.



insurance system (the social insurance of Taiwan) experienced some expansion between 1950 and the 1980s. However, the growth was limited. Taiwan experienced rapid industrialization in the 1980s, which was the background to the introduction of the Labour Standard Act. In contrast to previous social insurance legislation, this act shifts(ed) the responsibility to protect industrial risks from society to the employer. In other words, it was based on the principle of privatization. This may have significant consequences for the development of the social insurance system in Taiwan.

In the 1990s, public attitudes toward the social insurance system changed. With political reform, two important social insurance schemes, the NHI and unemployment benefit, were introduced. However the Government still resisted against the reform of old age benefits, and the proposal to change the current lump sum benefit to monthly payments still remains(ed) to be implemented.

Social and political pressures have pushed the Government to introduce new benefits financed by general taxation. These benefits include Old Age Allowance, which is implemented in some local areas, Low-income Elderly Allowance, which is national, and Old Farmer's Allowance. Although these benefits have caused a serious financial burden to both central and local governments, the Government resists replacing them with a contributory employment pension. On the contrary, the Government has been working on planning a national pension system and an individual savings account. In the field of old age security, the new DPP Government, which came to power in 2000 after 50 years of KMT's governance, has not mapped out any clear reform programme.

In conclusion, the Taiwanese social insurance system was established while the society was in its agricultural stage, stagnated during industrialization, and then expanded with political reform. Its growth has been limited since the political elite is unwilling to expand it. Taiwan's experience has demonstrated that the development of the social insurance system has a close relationship with politics, with support from the political elite needed to make it possible to implement the system. Whilst political reforms have helped to advance the social insurance system, due to structural limitations that remain in the political arena, social insurance policies have not been able to develop in line with social change and social needs.

## *2. Inequality and Stratification*

Social policies that over-emphasize the political and ignore social and economic realities result in a system that deepens the inequality among different social classes. Current problems concerning inequality and stratification in Taiwan can be attributed to the long political dominance of the KMT. The most significant difference comes from the gap between schemes for Government employees and those for industrial workers.

This gap signals that a social security system does not necessarily correspond with social problems, it may in fact serve to reinforce the advantages of the social elite and ruling class. Some welfare schemes introduced recently, such as the NHI, which was enacted after political reform, have alleviated the gap between different social groups

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by providing the same protections to all citizens. In the field of old age income protection, since the provisions for government employees have been increased and benefits for labourers have not been improved, the gap between different occupational groups has deepened. In addition, the social insurance system faces continuous problems of inequality between social classes since it offers special subsidies to farmers, craft workers, and the unemployed.

The gap between different occupational groups is one of the distinct characteristics of the Taiwanese social insurance system (the social insurance of Taiwan) and any future plans to reform the system needs to take this issue into consideration.

### *3. Privatization vs. Centralization*

The Taiwanese social security system contains two contrary characteristics, privatization and nationalization. The Labour Standard Act introduced in 1984 is a good example of privatization. This Act assigns the responsibility to employers to pay for employees' retirement and redundancy. However, this measure has failed in practice, leading the KMT Government to introduce new proposals in 1997, for a more individualized system of personal savings accounts.

In contrast to the move towards individualization, the social insurance system also encompasses nationalization. The establishment of a Central Bureau of National Health Insurance together with the implementation of a single health insurance provision for all citizens, is evidence of a move towards centralization and nationalization of the Taiwanese social security system (the social system of Taiwan). Proposed plans to establish a national pension system are also evidence of this nationalization trend.

It is worth noting that the abovementioned proposal of individual savings accounts also contains both elements of individualization and centralization. It proposes that the Government be the sole organization for administrating this system and managing the reserve fund.

The fact that the Taiwanese social insurance system (the social insurance of Taiwan) contains contrary characteristics of individualization and centralization has undermined the spirit of social insurance. Future development in the Taiwanese social insurance system (the social system of Taiwan) should follow the principles set in the Constitution and be based on the spirit of social insurance, that is, to adopt a direction of socialization, including decentralization and social self-administration, rather than individualization or centralization.

## VI. PERSPECTIVES

### *1. Domestic Factors*

Having identified its characteristics and problems, some questions concerning the Taiwanese social insurance system should be asked. First, why did they come to exist? Secondly, how can they be changed?

Why does the Taiwan Government, being conservative and resisting the expansion of the social security system, introduce generous schemes for certain groups of the population, especially government employees? Taiwan's social structure and ideology provide two indications of the answer to this question. Taiwan has been governed under Martial Law for 40 years since the end of the Second World War. In addition, the full-scale elections for members of the National Assembly and the Legislative Yuan did not take place until 1991/1992, and, before 2000, the KMT enjoyed complete domination in politics. It is understandable that the KMT Government introduced generous schemes for government employees as these groups of people followed them from Mainland China to Taiwan. Thus, for a long time, the Taiwanese social security system (the social security of Taiwan) has functioned as a mechanism, not for protecting industrial risks, but for reinforcing the privileges for certain social groups.

With political reform, the approach of privileging certain groups has faced severe challenge, leading to the introduction of the NHI, the unemployed benefit, and various social allowances being implemented. However, the Government still resists introducing pension insurance for industrial workers.

This conservative attitude is closely related to the ideology of government officers and the academia. Taiwanese governmental departments, especially the Council for Economic Planning and Development (CEPD), and economists are very influential in policy-making. Taiwan has been a laboratory for the New Right since the 1970s. Policy makers and economists use its arguments to oppose any kind of expansion of the social insurance system. They suggest that the social insurance system causes financial burden to the Government, employers, and future generations. Thus, they are strongly in favour of a privatized system.

There are two reasons why the DPP Government does not change social policies dramatically and propose a national pension scheme based on individual's savings. First, governmental officers in charge of planning the national pension system have remained almost unchanged after the DPP Government came to power. Second, the DPP has focused its campaign on political reforms and has not drawn clear proposals about social policies.

Although there are problems and challenges toward this system, there is no need to be pessimistic. History has demonstrated that, with political reform and a belief in human rights, it is no longer acceptable to use social security schemes to serve class interests. There is the potential for future social policies to be based on a more

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democratic process giving greater consideration to equality and human rights, as well as encompassing closer examination of the developments of social change, social problems, and social needs. Under such circumstances the influence of government officers and economists who oppose social welfare may decline. If all these dimensions are realized, a well-functioning social insurance system could materialize.

## *2. International Factors*

The introduction of social insurance schemes in the 1950s in Taiwan is partly due to international influence and co-operation, together with the support from politicians and policy-makers. Their experience of studying in European countries and knowledge of European social insurance policies has led to strong support of the social insurance system. For instance, Zheng-Fu Xie a scholar who studied in France and was strongly in favour of the Bismark model, was very influential in the development of Taiwan's social security system.<sup>23</sup> In addition, the enactment of the Atlantic Charter, which values social security, was also an important influence in the establishment of the Chinese social insurance system after the Second World War.

The participation in international organizations is also an important factor. Before 1971,<sup>24</sup> Taiwan was a Member State of most international organizations, including the United Nations (UN) and International Labour Organisation (ILO). Taiwan used to actively participate in the ILO, which had a branch office in Taipei, and this had a significant influence on the development of the social insurance system. This kind of international co-operation is an important background to the development of the Taiwanese social insurance system before 1971. After 1971, Taiwan was no longer a Member State of the UN or the ILO, and the number of countries having an official relationship with Taiwan has declined dramatically.

Although Taiwan is still active in the international economy, and is now one of the most important newly industrialized countries, it can hardly participate at all in international affairs. There is a huge limitation for Taiwan to be involved in international co-operation in planning employment policies and social policies, this is due to its lack of membership in the ILO. The decline in international relationships was an important factor in the Taiwanese social security system's move away from the principles of social insurance during the 1980s.

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23. See Zheng-Fu Xie, *Social Problems and Social Policy*, Taipei 1981.

24. In this year, the P.R.C became a Member State of the United Nations. The relationship between Taiwan, the R.O.C, the P.R.C, and the United Nations is very controversial and beyond the discussion of this paper.

It is obvious that Taiwan's recent social security plans, especially the proposals to reform old age benefits, are influenced by the World Bank.<sup>25</sup> Although Taiwan does not have a close relationship with the International Monetary Fund (IMF) and the World Bank, it has, due to its powerful economic strength, a co-operative relationship with international economic organizations. In fact, Taiwan is a Member State of some international economic organizations, including the Asian Pacific Economic Cooperation (APEC) and with effect from 1 January 2002 membership in the World Trade Organisation (WTO). The Taiwanese Government has taken to heart the World Bank's proposal for the reform of the old age income protection system, without taking the ILO and the International Social Security Association's (ISSA) criticism against this proposal seriously.

Taiwan was called 'the Orphan of Asia' before the end of the Second World War. Since 1971, it has become an orphan of the world. At present, being a Member State of the WTO, Taiwan is expecting to join the World Health Organisation (WHO), and looking forward to rejoining the UN. However, these expectations, especially of rejoining the United Nations, are difficult to be realized. Nevertheless, one question should be asked: Although the WHO and the ILO do not accept Taiwan as a Member State, is it correct for them to pay no attention to the health, employment, and social protection of the Taiwanese people? At this point, both the Taiwanese Government and international organizations should re-consider Taiwan's membership of these organizations, and how Taiwan can co-operate with these international organizations. Taiwan's experiment and achievement in social policy do not only impact on the well-being of the Taiwanese people, but also offer a good example for other countries. Taiwan's experience in economic development and political reform is valuable for the international society, as is its experience in social policy.

Due to the limited participation in international organizations, the co-operation between Taiwan and the international society is based on individual level, especially relying on members of the academia. A large number of Taiwanese scholars who have studied in the US, Japan, Germany, and other European countries have played an important role in international communication.<sup>26</sup> The co-operation between universities and academic organizations is also an important strategy.<sup>27</sup> However, this kind of

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25. Obviously, the departments which are in charge of planning the pension system in Taiwan, especially the CEPD, take the World Bank's report, 'Averting Old Age Crisis: Policies to Protect the Old and Promote Growth', 1994 as a bible, and do not pay attention to other arguments, such as Beattie and McGillivray's papers that challenge the World Bank's proposal.

26. The population of Taiwan is 23 million, much less than many populous countries. However, the number of Taiwanese students studying abroad is relatively high. Take the US for example; Taiwan has been among the top three countries where most overseas students in the US come from.

27. The international symposium which led to the publication of this book is a good example for this kind of international co-operation.

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communication does not necessarily improve social policy or facilitate the development of the social insurance system in Taiwan. As the US was the most popular country to Taiwanese students studying abroad, Taiwan's academia, especially the economists society,<sup>28</sup> is strongly in favour of the American model. In addition, many Taiwanese economists ignore the fact that some American economists actually support social insurance system. Unfortunately, they do not pay attention to these supportive arguments towards social insurance.

In contrast to economists who oppose social insurance, sociologists and scholars in law, especially those who have studied in European countries, support this system. It is also these scholars whom the international communication relies on.

## VII. CONCLUSION

The expansion of the social insurance system in Taiwan has been well observed. The introductions of the NHI and unemployment benefits in recent years are clear evidence that the social insurance system has won strong support in Taiwan. However, the Taiwan Government still resists implementing a pension insurance scheme to protect industrial workers.

As far as the social insurance system is concerned, the KMT Government achieved some success and deserves some credit. However, its ambitions were limited. The development of the social security system in the past 50 years has shown that the KMT was concerned more with the interests of certain groups, especially government employees, than solving problems resulting from industrialization. Therefore, social insurance benefits and other social security payments have become a privilege of special social classes, and have created an unequal and unjust society. This was further compounded by the KMT Government's strategy not to reform the social insurance system, but to try to adopt employer's liability and an individual retirement accounts scheme which assigns more responsibility to employers and individuals. However, through Taiwan's political reform, this anti-welfare approach did not materialize. The implementation of two social insurance schemes, the NHI and the unemployment insurance, has followed the route of social insurance. However, these schemes, especially the NHI, are State-managed and contain strong characteristics of centralization and nationalization.

The victory of the DPP in the presidential election of 2000 provides a good opportunity to improve Taiwan's social policies and social insurance system. However, after one year in power, the DPP Government has not made much progress in this regard.

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28. In Taiwan, in both the economics departments in universities and economics research institutes, most, if not all, of the teaching and research staffs got their doctorate in the US.

Further observation is needed to see if the Taiwanese social insurance system, under the DPP Government, will improve.

In the development of the Taiwanese social insurance system, both domestic and international factors have played an important role. Domestically, Taiwan's special political structure has proved vital. It is the political reform rather than the economic and social situation that has dominated the development of the Taiwanese social insurance system. Internationally, Taiwan's isolated situation in the international community and its limited participation in international organizations, especially in the ILO, have had an important impact on the development of the social insurance system. The co-operation and communication between academia thus has become vital. However, this is no easy task since the economists who have studied in the US and are anti-welfare, play a dominant role in this field.

Domestically, the development of the Taiwanese social insurance system relies on the continuance of political reform. Internationally, it is vital to keep co-operating with international organizations, especially with the ILO and ISSA. In addition, the academia should be more active in co-operating with international organizations, without being dominated by anti-welfare economists.

If the measures addressed above do not materialize, the Taiwanese social insurance system will not have a bright future. On the other hand, it is a reasonable expectation that Taiwan will achieve a 'social miracle' after accomplishing democratic reform and economic change. If this does happen, the Taiwanese people will have better social protection, and, the Chinese societies, Asian countries, and even all the developing countries will have a good example in developing social security systems.

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