



Pension Reform in Japan: the 2011 Law and Future Issues

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Agenda



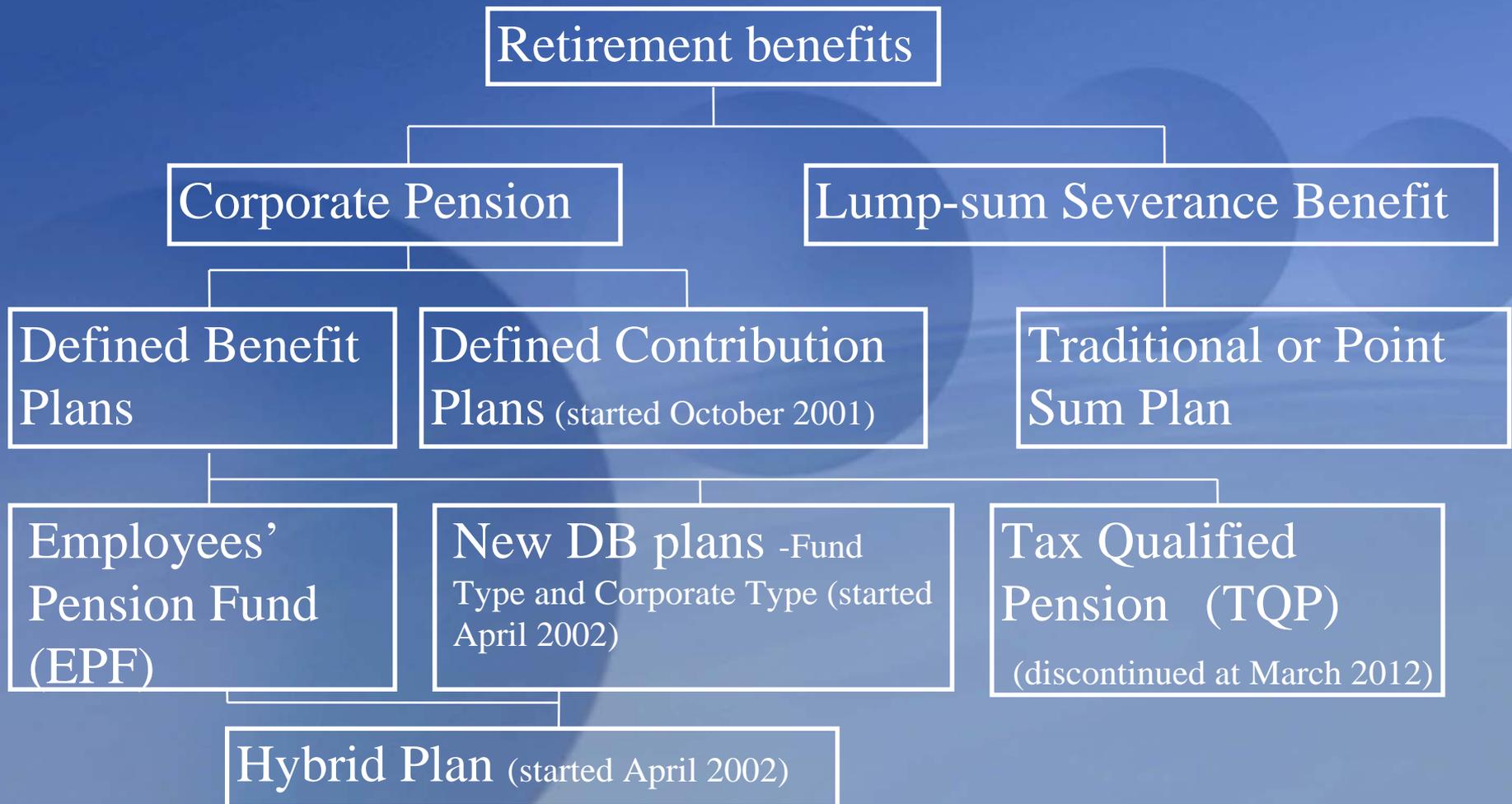
- What is happening with Japanese corporate pensions and public pensions?
- What is the new employee contribution in DC plans?
- What does the government plan to do with the pension system?
- What is the current status of and prospects for reform?

Japanese Pension System Overview



- Retirement benefits in Japan have three tiers. The 1st and 2nd tiers are composed of public pensions:
 - 1st Tier -- the National Pension [the basic pension, a flat-rate benefit varying according to the duration of premium payments]
 - 2nd Tier -- Employees' Pension Insurance (an earnings-related benefit)
- The 3rd tier is a corporate pension and/or lump-sum severance benefit

Corporate Retirement Benefits System in Japan



Trends and issues of corporate pension



- Tax Qualified plans were discontinued and 40% of them didn't go to another corporate pension
- Most EPFs have become multi-employer-type funds with the majority taken by mid-small companies
- The corporate pension cover ratio is decreasing
- 30% of DB plans are CB plans
- Traditionally, corporate pension plans have been merely a tool for the financing of lump-sum severance benefits

The current situation of corporate pensions



Date	Tax Qualified Pension Plans		EPFs		DC Plans (Corporate Type)		DB plans	
	No. of plans	No. of members	No. of plans	No. of members	No. of plans	No. of members	No. of plans	No. of members
		'000		'000		'000		'000
March 2002	73,582	9,167	1,737	10,871	70	88	-	-
March 2004	59,163	7,779	1,357	8,351	845	708	316	1,350
March 2006	45,090	5,687	687	5,310	1,866	1,733	1,430	3,840
March 2008	32,826	4,434	626	4,625	2,710	2,711	3,098	5,060
March 2010	17,184	2,502	608	4,307	3,301	3,404	7,407	6,470
March 2011	8,051	1,260	588	4,302	3,705	3,710	10,053	7,270

NOTE: DB plans started from April 2002
Source: Pension Fund Association etc.

- DB plans are in the majority
- DC plans are becoming popular
- The number of EPFs is decreasing

Trends and issues of the existing public pension system

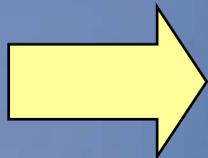


- Divided by occupation and affected by career changes, self-employment and public-sector employment
- In 2006 announced 50 million mislaid records
- Benefit level is low and the duration of eligibility is 25 years.
- 40% of eligible participants are not contributing to the National Pension.
- The automatic balancing system doesn't work in a deflation situation.

Japanese DC plans and the new employee contribution



- Modeled on the 401(k) plan in the USA
- Two types --- Corporate type, an employer-sponsored plan (97% of total DC participants, employee contributions not permitted)
Individual type, a plan for individual employees without a corporate pension (only 3% of DC participants)
- Employee contributions became possible on January 1, 2012.
- Finally Japan has attained a global standard: Employer and employee contributions are both allowed



However, the Japanese plan remains voluntary and has a strict contribution limit

The structure of the new employee contribution system (1)



(Source: Ministry of Health, Labor & Welfare)

- Voluntary employee contributions have become possible for Corporate Type plans.
- Employee contributions cannot be more than employer contributions
- The total of combined employer and employee contributions cannot exceed the limit set in the tax laws

The structure of the new employee contribution (2)



- The upper limit of the contribution has increased gradually

The upper limit of the Corporate type was raised on January 2010

- ¥612,000 per year (¥51,000 per month) from ¥552,000 (¥46,000 per month) with no other corporate plan
- ¥306,000 per year (¥25,500 per month) from ¥276,000 (¥23,000 per month) with corporate pension plan

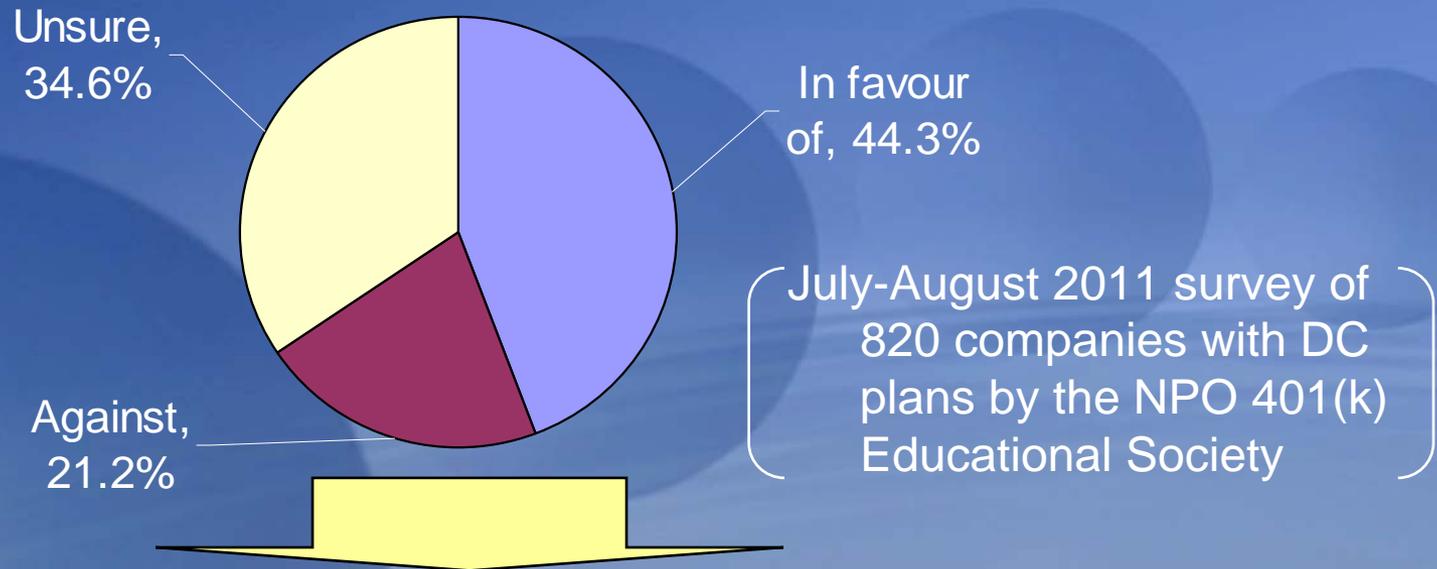
US\$1=¥81.26, 1 euro=¥107.19, 1 pound=¥130.97 as at 23 April 2012

- For administrative reasons, the upper limit must be managed by the company
- Employee contributions will be tax-deductible

Trends of the New employee contribution



● Plan to introduce the system



● Started in January 2012

● 91 companies (28 plans) in two months: January-February 2012 approved by the Ministry

A Revised Public Pension System Proposal (1)



- DPJ, the ruling party, started comprehensive reform of social security and taxes in October 2010
- The general outline of the reform was published in February 2012
- The plan calls for a hike in consumption tax: from current 5% → 8% in April 2014 → 10% in October 2015
- The plan was presented as draft legislation to the 2012 Diet (legislature)
 - The duration of eligibility --- decreased from 25 to 10 years
 - The benefit level --- improve for low-income pensioners, cut for high-income pensioners
 - Add some part-time workers (450,000) to a second-tier public pension (the EPI)
 - Unified private-sector and public-service employees' pensions

A Revised Public Pension System Proposal (2)



- More discussion is needed
 - To raise the pension age (existing National pension 65, EPI now 60, rising to 65 in 2025), to 68 – 70 years old
 - To clarify the financing of basic pensions for the dependent spouses of employees
 - To activate the automatic-balancing system even in a deflationary period
- The discussion will continue inside the government panel

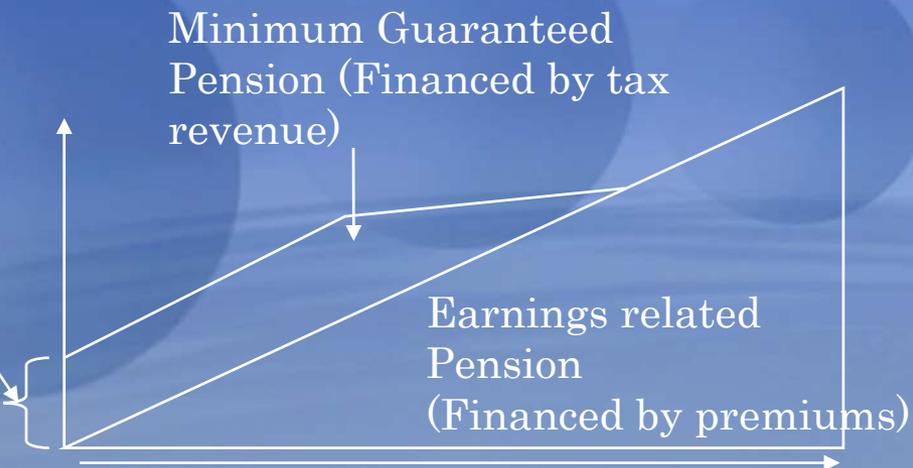
New Pension System (DPJ proposal)



- The DPJ's goal is a new pension system modeled on Sweden. They plan to present the legislation in 2013

- The design:

- all people participate
- contribution = 15% of salary; benefit level of minimum pension = ¥70,000 (existing basic pension ¥66,000)



- 40 years for the transition (total benefits = existing benefits until transition date + future benefits)
- Major Issues
 - accurately knowing the income of self-employed persons
 - dependents without earnings

Conclusion



● For corporate pensions

- The new employee contribution of DC plans will be more popular
- The upper limit of DC plans will increase gradually
- We must increase the cover ratio by using a variety of corporate pensions. New plans may be needed
- Corporate pensions will be reviewed following the public pension reform

● For public pensions

- DPJ doesn't have a majority in the Upper House so new legislation in 2012 may not pass
- Rapid aging of society will increase pressure for pension reform

References



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