

Is the Benefit from Public Pension Adequate for Retired Workers in Japan?

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Abstract

All opinions in this report are stated as individual opinions.

The benefit from public pension occupies a very large place in the income of retired people in Japan as well as other countries.

By the 2004 reform of social security pension law, an automatically balancing mechanism was introduced. This framework is that the contribution schedule is fixed at first and then the benefit level is automatically adjusted to restore financial equilibrium.

As the result, the contribution of Employees' Pension Insurance increases to 18.3% in 2017 and the "replacement rate", which means the index of the benefit level, is projected to gradually decrease from 62.3% in 2009 to 50.1% in 2038. This indicates that the benefit will be cut by about 20%.

In this report, the future benefit of the public pension is anticipated at first and it is discussed how much benefit is cut and whether the benefit is enough or not for monthly expenditure of aged couples.

Key findings are as follows.

- Aged couples expend ¥237,000 per a month in 2007.
- It is anticipated that the monthly benefit would be ¥674,000 in 2059 under the automatically balancing scheme, if the wage increase rate were 2.5% per a year. But it has to be discounted by the consumer price increase rate to verify whether the benefit is enough or not. In the case of 1.0%, it is enough but in the case of 2.5% it is not.

Consequently, the Government should adopt two policies as follows

- The various saving instruments should be given to compensate for the income reduction. And the contribution paid to those instruments should be tax-deducted.
- The employment opportunities should be given to aged people so that they can get income until the start of the public pension.