

Key theme

Corporate (private) post employment benefits

Title

Financial management and protection of pension eligibility in corporate pensions in Japan

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Abstract

In Japan, there are two types of a defined benefit pension plan, such as the Employees' Pension Fund which includes the substitutional portion of the Employee Pension insurance, a public pension scheme, and the defined benefit corporate pension plans which consist of "fund-types" and "contract-types". (There is also the Tax Qualified Pension Plan, but this type is due to be phased out by 2012.)

These two types of defined benefit plans are required to report a funding status annually. And the report should have results on two bases:

1. an "ongoing" valuation, if liabilities exceed assets on this basis then additional contributions need to be made immediately.
2. a "discontinuance" valuation, if liabilities exceed assets on this basis then additional contributions need to be made immediately or the contribution schedule should be revised to increase contribution over a period of up to a decade. (There are two alternatives to satisfy this basis.)

The minimum funding reserve is valued as a value of the pension eligibility in a pension plan. Therefore, it is also used to distribute the pension assets among participants when the pension plan is terminated. However, there are some questions whether the minimum funding reserve is the best benchmark of measurement of pension eligibility because of its property and complexity of valuation.

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Then, in this paper, it will be discussed what kind of standard is better for the protection of pension eligibility. And if a plan adopts another standard instead of the minimum funding reserve, it will be also discussed where should be paid attention actuarially in financial management of the pension plan.

