

KEY THEME: Social Security

TITLE: SOME WEAKNESSES OF A BENEFIT LEVEL INDICATOR

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ABSTRACT

Japan's social security pension reform in 2004 had two objectives. One was to remove anxiety from people on the level of contributions which people feared would go up endlessly. Therefore Japan fixed the future contribution programme and introduced an automatic balancing mechanism to recover financial equilibrium under the incessant decline of fertility and the continual improvement of mortality averting political battle. On the other hand, the automatic balancing mechanism might cause another anxiety for people on the level of benefit that people might fear would be reduced infinitely. The other objective was, therefore, to remove the second anxiety as well. To realize this, Japan defined a measurement of benefit level that is a replacement rate and, by using this, introduced the minimum benefit level provision whereby, if the actuarial projection shows that the benefit level measurement threatens to go below the prescribed level before the next actuarial valuation, the automatic balancing mechanism is to be frozen and drastic reform discussion on benefit and contribution regime is to be resumed. The prescribed level was supposed to represent the threshold below which the benefit level the social security pension schemes provide would become inadequate. After some time elapsed since the 2004 reform and we experienced unusual economic conditions, we became aware of some weaknesses of this measurement as benefit level. This paper summarizes such weaknesses and proposes alternative ways to monitor benefit level of social security pension schemes. At the same time we draw lessons from this experience that heavy dependence upon a single indicator would hinder us from understanding social security pension schemes properly.

Keywords: automatic balancing mechanism, benefit level, replacement rate, benefit adequacy