

Pensions, Benefits and Social Security
4TH PBSS Colloquium

Tokyo, Japan
October 4 (Sun) - 6 (Tue), 2009

The Current Status and Future of Pensions in Japan

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I . Historical Changes in Japanese Pension Systems

1. 1940s – 1950s (elderly population rate: 4.8% - 5.73%)

Systems were established one after another until Universal Pension Coverage was achieved

1939 Seaman's Insurance Act enacted

1941 Workers' Pension Insurance Act enacted (covering male workers)

1944 Name changed to Employees' Pension Insurance Act (applying to women as well)

1948 National Public Servants' Mutual Aid Association Law (old law) enacted

1953 Private School Personnel Aid Association Law enacted

1954 Employees' Pension Insurance Act overhauled

Municipal Personnel Mutual Aid Association Law enacted

1958 Mutual Aid Association of Agriculture, Forestry and Fishery Corporation Personnel Act enacted

1959 National Pension Act enacted (covering self-employed persons); non-contributory pension plan implemented

National Public Servants' Mutual Aid Association Law (new law) enacted

Superannuation system eliminated

I . Historical Changes in Japanese Pension Systems

2. 1960s – 1970s (elderly population rate: 5.73% - 9.10%)

In keeping with rapid economic growth, systems were developed and expanded, with a focus on increased payment levels

- 1961 National Pension Act (Contributory plan) implemented (start of collection of insurance premiums)
- 1962 Local Public Service Mutual Aid Association Law enacted
- 1965 Employee pension : 10,000 yen/month
Employees' Pension Fund Scheme established
- 1966 National Pension: 10,000 yen/month for husband and wife
- 1969 Employee pension: 20,000 yen/month
National Pension: 20,000 yen/month for husband and wife
- 1973 Employee pension: 50,000 yen/month (60% of average salary for men)
Revaluation of previous wages, consumer price indexation for pension amount: both started
- 1976 Employee pension: 90,000 yen/month
National Pension: 65,000 yen/month for husband and wife
- 1980 Employee pension: 136,000 yen/month
National Pension: 84,000 yen/month for husband and wife

I . Historical Changes in Japanese Pension Systems

3. 1980s – 1990s (elderly population rate: 9.10% - 17.34%)

Entering the era of the increasing elderly population, payments for various systems were standardized, disparity was corrected, and financial policies were adjusted

1985 National pension applied to all citizens; basic pension scheme established; employee pension payment levels adjusted; employee pension and Seaman's Insurance integrated

1989 Complete consumer price indexation
Sharing of pension cost among employees' pensions for particular pensions (JR)

1994 Age for payment of fixed amounts in employees' pensions raised from 60 to 65
Gross salary increase system changed to net salary (disposable income) increase system

1997 Employees' pension and Half Public Company Pension (JR, JT, NTT) integrated

2000 Employees' pension payment levels adjusted
Age for payment of earnings-related pension raised from 60 to 65
Age of eligibility for employees' pension raised from 65 to 70
Total remuneration system for insurance premium rates: 13.58%

I . Historical Changes in Japanese Pension Systems

4. 2000s – 2010s (elderly population rate: 17.34% - 27.8%)

Amid rapid growth in the elderly population and a long-term economic downturn, controlling increased burden and maintaining the sustainability of the system have become critical issues

2001 Association of Agriculture, Forestry and Fishery Corporation
Personnel is integrated into Employees' pension

2004 Insurance premium rates increased and upper limit fixed
(18.3%)

Macroeconomic indexation scheme for payment levels
(actual decrease)

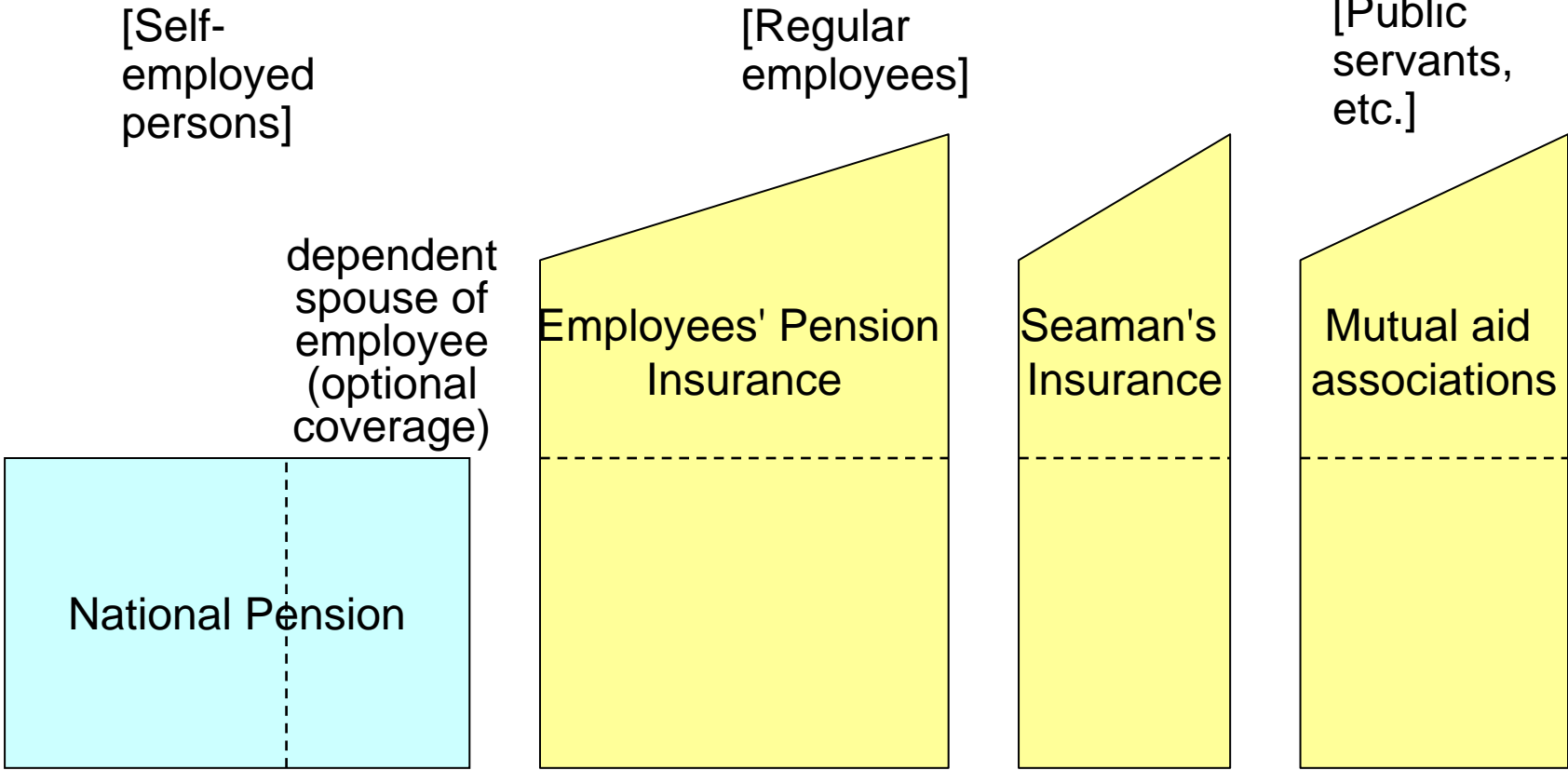
Change in financial method

(equivalent with far long term → balanced in several decades)

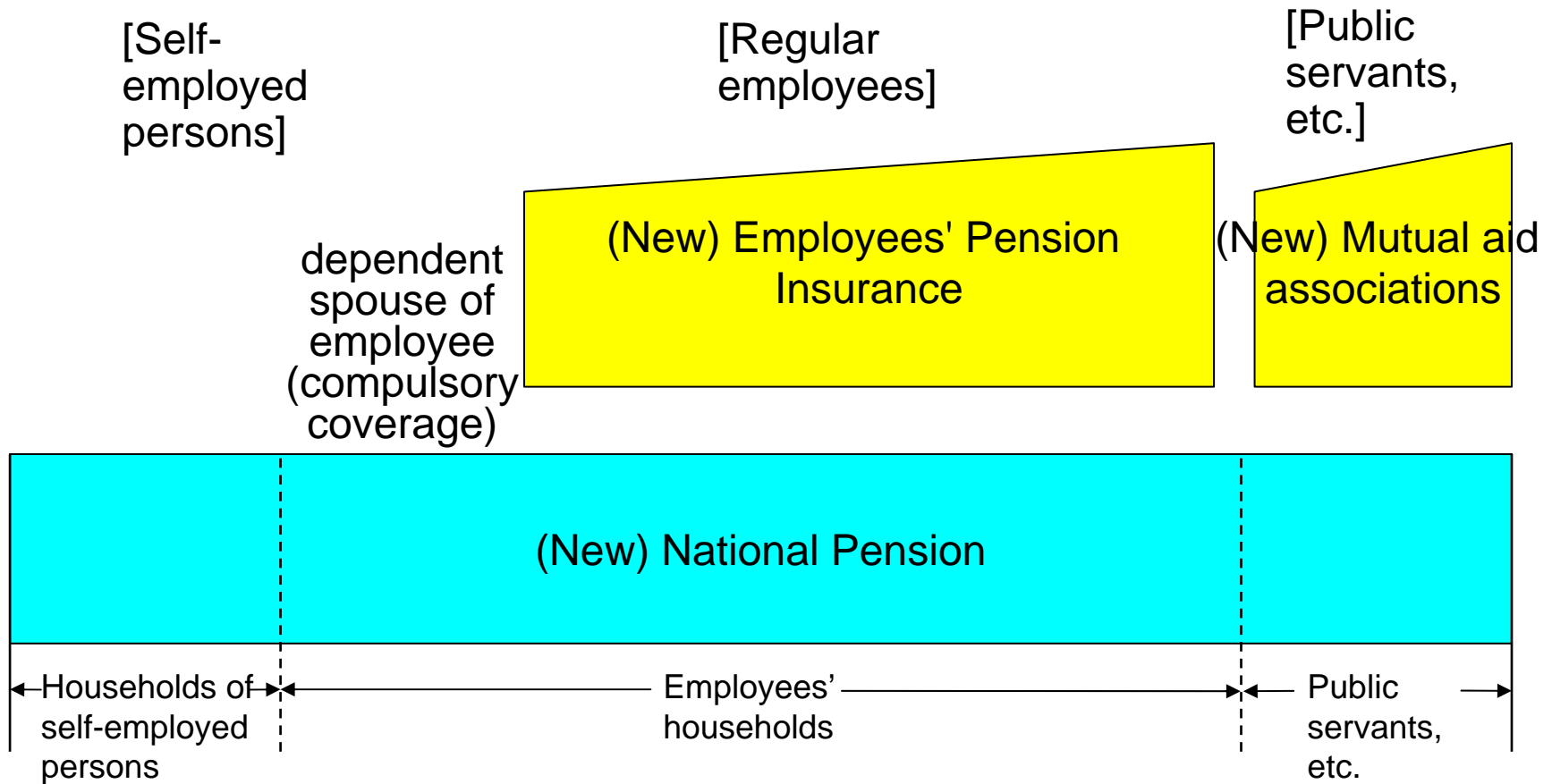
Increase in burden of basic pensions born by National Treasury
increased from 1/3 to 1/2 (2009)

2007 Consolidation of employees' pensions Act proposed (proposal
abandoned)

1986 amendment to pension system (before amendment)



1986 amendment to pension system (after amendment)



II .Japanese Pension Systems: Characteristics and Problems

- Late establishment of systems, and rapid maturation
- Complete Universal Pension Coverage (even persons without income are covered)
- Social insurance format, but taxation source also introduced
- 2-tiered structure: Basic pension (fixed amount) and pension proportionate to wages
- Low insurance premium rates; early payment age; high payment levels; lower limit of payments and upper limit of contribution
- Adjustment (increase) in payment levels with upper limit on contribution and lower limit on payments
- Pay-as-you-go scheme, but some amount of reserves secured
- A hybrid system with various characteristics and functions overall
- Reduced ratio of insurance premium payments in National Pension
- Increase in persons with no pension or low pension
- Problems with pension records, etc.
- Concerns and anxiety regarding the reliability of future payments

Ⅲ. Japanese Pension Systems at a Crossroads What are the issues and correct choices?

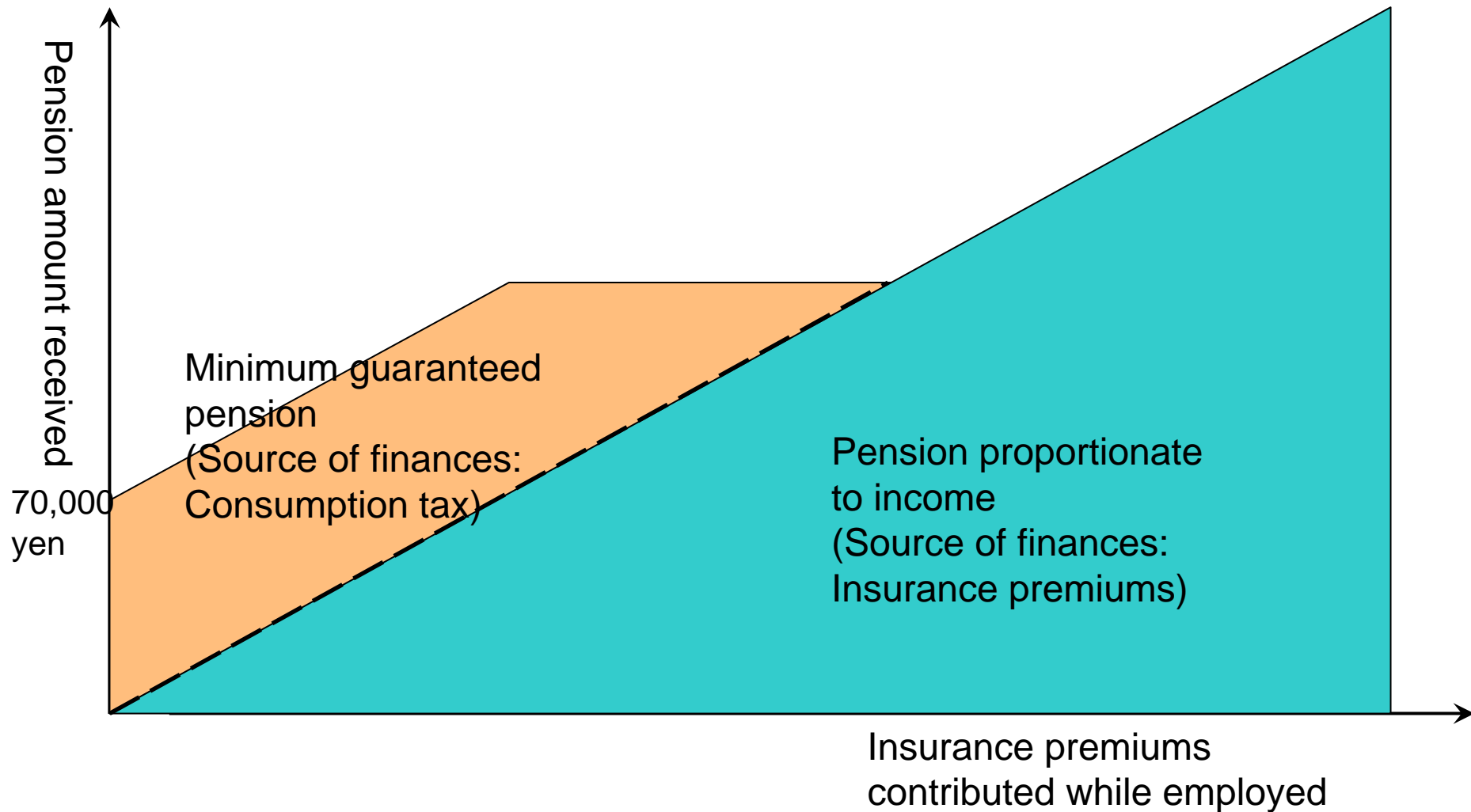
(1) Continue the current system framework

- Secure stable sources of financing required to increase the burden of basic pensions on the National Treasury (increase consumption tax)
- Integrate “employee pensions” and “mutual aid”
- Measures targeting persons with no pension or low pension
 - Apply employee pensions to part-time workers
 - Reduce period of eligibility for receiving payments
 - Increase pension amounts for persons receiving low pensions

(2) Dramatically change the current system framework

- Create a pension system proportionate to income, using a single insurance system covering all citizens
- Create a new tax-based minimum guaranteed pension of about 70,000 yen/month

Image of Democratic Party's Pension Reform Proposal



The 4th PBSS Colloquium TOSHI CENTER Hotel, Tokyo, Japan – 4–6 October 2009

IV. Important assumptions and perspectives when selecting directions at this crossroad

(Reference Material)

Pension systems in Japan

- Public Pension System: Basic Pension, Employees' Pension Insurance, Pension of Mutual Aid Association
- Private Pension System: **Corporate Pension Plans:** Employees' Pension Funds, Defined Benefit (DB) Corporate Pension Plan, Defined Contribution (DC) Pension Plan (Corporate type)
(Tax Qualified Pension Plan is to be repealed by Mar., 2012)
- Personal Pension Plans:** DC Pension Plan (Individual type), National Pension Funds

