

Selected Topics on the Japanese Pension Plans in 2006

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1. Public Pension Systems

(1) The following public pension reforms which were introduced in the 2004 Pension Act were implemented in 2006 continuously.

- People became possible to get both benefits of the disability benefit of Basic Pension (1st pillar) and the old-age benefit of Employee's Pension Insurance (2nd pillar) together, which was not permitted before [April 1 2007],
- The new Government Pension Investment Fund was established as an independent administrative institution [April 1 2007],
- The three quarters and a quarter contribution-exemption system were introduced newly in addition to all-exemption and a half exemption system [July 1 2007], and
- To provide information of splitting pension in case of divorce [October 1 2007].

(2) The following basic policies, aimed to the unification of employees' states pension systems, namely integration of Employee's Pension Insurance (EPI) and Mutual Aid Associations (MMAs) was decided by the cabinet [April 28 2006 and December 19 2006].

- To increase contribution rate of MMAs up to 18.3%, which was the same as the maximum contribution rate of EPI,
- To eliminate the distinction between EPI and MMAs benefits,
- To abolish the occupational portion of MMAs, and
- To reduce benefits corresponding to government pension by 27%. However the total amount after reduced should be no less than 2.5 million yen, and

the reduction rate to total amount should be no more than 10%.

The government will submit bills for the unification to the Diet in 2007.

- (3) The National Personnel Authority (NPA) reported that the amount of retirement benefits for private employees (29,802 thousand yen) was more than that for government employees (29,601 thousand yen) by 0.68% (201 thousand yen). The NPA also reported that after abolishing the occupational portion of MMAs, the amount for private employees was greater by 8.82% (2,416 thousand yen) [November 2006].
- (4) The Diet members' pension Act was abolished in April 2006. The members who have served for 10 years and over are able to choose one of the following two possibilities;
 - a) Pension benefit cut by 15%, or
 - b) Lump-sum benefit which is equal to 80% of total contribution amount.
- (5) According to the investigation of Social Insurance Agency (SIA), the number of improper exemption for the National Pension (NP) contribution was 222,587 cases [August 2006].
- (6) The ruling parties decided that Social Insurance Agency (SIA) should be dissolved and changed into the new organization whose employees should be non-government officers. The previous SIA reform bills in which the new organization's employees could be government officers were abolished, and the new SIA reform bill will be submitted to the next ordinary session of the Diet [December 2006].
- (7) From April 2008, 'Pension Information Letter' will be provided to all participants of NP and EPI once in a year. Information in the 'Letter' includes period of contribution or contribution exemption, total contribution amount, and estimates of pension benefits.
- (8) Japan has concluded International Social Security Agreements with Germany (effective on February 1 2000), the United Kingdom (effective on February 1 2001), Korea (effective on April 1 2005), the United States (effective on October 1

2005), and Belgium (effective on January 1 2007). Japan also signed with France in February 2005 and with Canada in February 2006, and both will be in effect during FY2007. In addition, Japan is negotiating with Australia and Netherlands on International Social Security Agreement. The purpose of these agreements is to avoid duplicate payments of pension contributions.

(9) Contribution amount of National pension was 13,860 yen per month and the rate of EPI was 14.642% of total remuneration (salary plus bonus), as of January 2007.

(10) Cost of living adjustment for FY2006 of 0.3% was applied to social security pension benefits. 'The Macro-economic adjustment' will not be applied until the cost of living adjustment for FY2000-2002 (accumulated 1.7%) will be dismissed.

(11) The portion of State Pension Reserve Fund which was invested in the capital market got the rate of return of 6.12% in FY2005. The total accumulated profit-and-loss amount was 9.31 trillion yen in FY2005.

(12) The pension council for the 2009 reform was started in the government in December 2006. Next actuarial valuation will be reported by February 2009.

2. Corporate Pension Plans

(1) Rate of return for corporate pension plans (Employees' Pension Funds (EPFs) and Defined Benefit Corporate Pension Plans (DB)) was 19.16% (21.08% and 16.50% respectively) in FY2005. The asset composition of corporate pension plans was as follows;

- Domestic bonds 20.87%
- Domestic stocks 30.81%
- Foreign bonds 11.67%
- Foreign stocks 18.32%
- General account 7.46%
- Hedge funds 4.18%

(2) According to financial statements of EPFs in FY2004, 411 funds (49% of total EPFs) had deficits on continuous basis. In the case of discontinuous basis, 560 funds (67% of those) are under 90% of minimum funding requirement.

(3) The number of EPFs which implemented the benefit cut was 111 funds in FY2005, of which 17 funds did for beneficiaries (accumulated numbers since FY1997* were 857 funds and 61 funds respectively).

* The decrease of benefit was accepted in FY1997.

(4) Pension Fund Association published the survey results of Defined Contribution (DC) plans in 2006. The results of survey are as follows;

- DC Design

- a) Approximately 20% of companies/contracts had members who paid maximum contribution limit,
- b) Thirty three percent of companies/contracts provided the choices for employees whether they participate in DC plans. Participation rate was 76%,
- c) In 10.7% of companies/contracts (16.9% of large companies), members could change the rate of DC contribution,
- d) Assumed interest rate of DC investment was 2.26% on the average, and
- e) Average number of investment products provided in DC plans was 14.76. Major investment products were guaranteed principal investment products, Japanese stocks mutual funds, and balanced type mutual funds.

- DC Management

- a) Standard investment education system was that which provided to all participants, during working hours, and one time only (in most cases, employees could get continuing education if they wish).
- b) 46.07% of total contribution and 43.02% of total asset were invested in risk assets.
- c) 33.5% of companies/contracts provided continuing investment education for DC plans participants.

(5) Ministry of Health, Labour and Welfare established the Corporate Pension Committee to discuss what should reform in DC and DB plans.

3. Others: Low Fertility Rate, Longevity

(1) Total Fertility Rate (TFR) was 1.25 in 2005, which was the lowest since the data became available in 1947.

(2) Life Expectancy at birth was 78.53 years for males (0.11 years less than previous year) and 85.49 years for females (0.10 years less than previous year) in 2005, which were less than the last year. The difference between males and females was 6.96 years (0.01 years more than previous year).

(3) As of September 2006, the number of old age people who were 65 years old and over was 26.40 million (20.7% of total population) and 75 years old and over was 12.08 million (9.5% of total population). The number of people who engage in work after 65 years old was 4.95 million (19.4% of total aged 65 years old and over).

(4) According to Statistics Bureau, the peak of total Japanese population was as of December 2004 (127.838 million people). In 2005, the natural increase (births minus deaths) was minus (19 thousand people). The natural decrease was the first time after the World War . According to Ministry of Health, Labour and Welfare, the natural increase in 2006 was also minus (6 thousand people), but the degree of decrease was smaller than that in 2005.

(5) According to "Population Projection for Japan, December 2006 Projection" published by National Institute of Population and Social Security Research, projected total fertility rate was 1.26 (0.13 point less than 2002 estimates) in the future in the medium scenario.

The other projected results of medium scenario were as follows;

- Total population will decrease from 127.77 million in 2005 to 89.93 million in 2055.
- Young population (aged 0-14 years old) ratio will decrease from 18.3% in 2005 to 8.4% in 2055. Working age population (aged 15-64 years old) rate will decrease from 66.1% in 2005 to 51.1% in 2055. Elderly population (65 years old and over) rate will increase from 20.2% in 2005 to 40.5% in 2055.