

The Current Issues of Pension Schemes in Japan

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This is my desk in Japan.
Many Beaujolais, some Bourgogne, & Bordeaux.
So I'm very happy to be here.



Today's presentation

1. The current issues of the pension schemes in Japan
2. The feature of the system of Japan
3. What should we do with regard to the pension schemes in Japan
4. The role which an actuary should play
5. Conclusion



1. The current issues of the pension schemes in Japan
 - The major issue is the reduction of coverage.



1.1 Reduction of coverage in the public pension schemes

- All citizens in Japan have the subscription duty. However, some self-employed workers began purchasing annuity products from the market instead of paying premiums to the National Pension (NP) scheme
- Many non-regular workers, who increased in number by the economic globalization, are driven away to the NP scheme instead of being covered by the Employee's Pension Insurance (EPI) scheme, which should be applied primarily

Number of Non-regular Staff

year	① Number of employees excluding company executives	Number of regular staff	② Number of non-regular staff	② ÷ ① (%)	(in ten thousand)	
					③ Category 2 participants (Workers in Private sector)	③ ÷ ① (%)
1985	3,998	3,343	655	16	2,723	68
1990	4,369	3,488	881	20	3,100	71
1995	4,780	3,779	1,001	21	3,328	70
2000	4,903	3,630	1,273	26	3,219	66
2005	4,924	3,333	1,591	32	3,302	67
2010	5,095	3,381	1,714	34	3,441	68

In these 25 years, the number of

- Regular workers : almost no change (+38)
- Non-regular workers : clearly shows an increase (+1059)
- Category 2 insured population : It has not caught up with the increase (+718)



1.2 Reduction of coverage in the occupational pension scheme

- “Corporate earnings and pension asset returns have fallen significantly” and “The accounting cost have increased substantially by the introduction of the international accounting standards” promoted termination of occupational pensions
- Increase of non-regular workers
- Abolition of the tax-qualified pension plans (TQPPs) and government’s proposal of phasing out the Employee's Pension Funds (EPF) scheme

Number of the Insured Persons

year (End of the fiscal year)	occupational pension scheme					② Category 2 participants (Workers in Private sector)	① ÷ ② (%)
	Tax- Qualified Pension	Employees' Pension Funds	Defined- Benefit Corporate Pension	DC (occupational type)	① sum		
	(in ten thousand)						
2000	968	1,140			2,108	3,219	65
2001	917	1,087		9	2,013	3,158	64
2002	859	1,039	3	33	1,934	3,214	60
2003	778	835	135	71	1,819	3,212	57
2004	655	615	314	126	1,710	3,249	53
2005	569	531	384	173	1,657	3,302	50
2006	507	474	430	219	1,630	3,379	48
2007	443	463	506	271	1,683	3,457	49
2008	349	439	570	311	1,669	3,444	48
2009	250	431	647	340	1,668	3,425	49
2010	126	430	727	371	1,654	3,441	48
2011	0	411	801	422	1,634	3,451	47

In these 11 years, the number of the insured persons,

- The TQPPs : decrease to 0 (-968)
- The EPF scheme : clearly shows a decrease (-729)
- DB, DC plan : as an alternative system of TQPPs and EPF scheme has not caught up with the decrease (+1223)



1.3 Issues we consider in this paper

- What should be the overall framework (architecture) of the pension schemes in Japan
- What roles pension actuarial professions should play

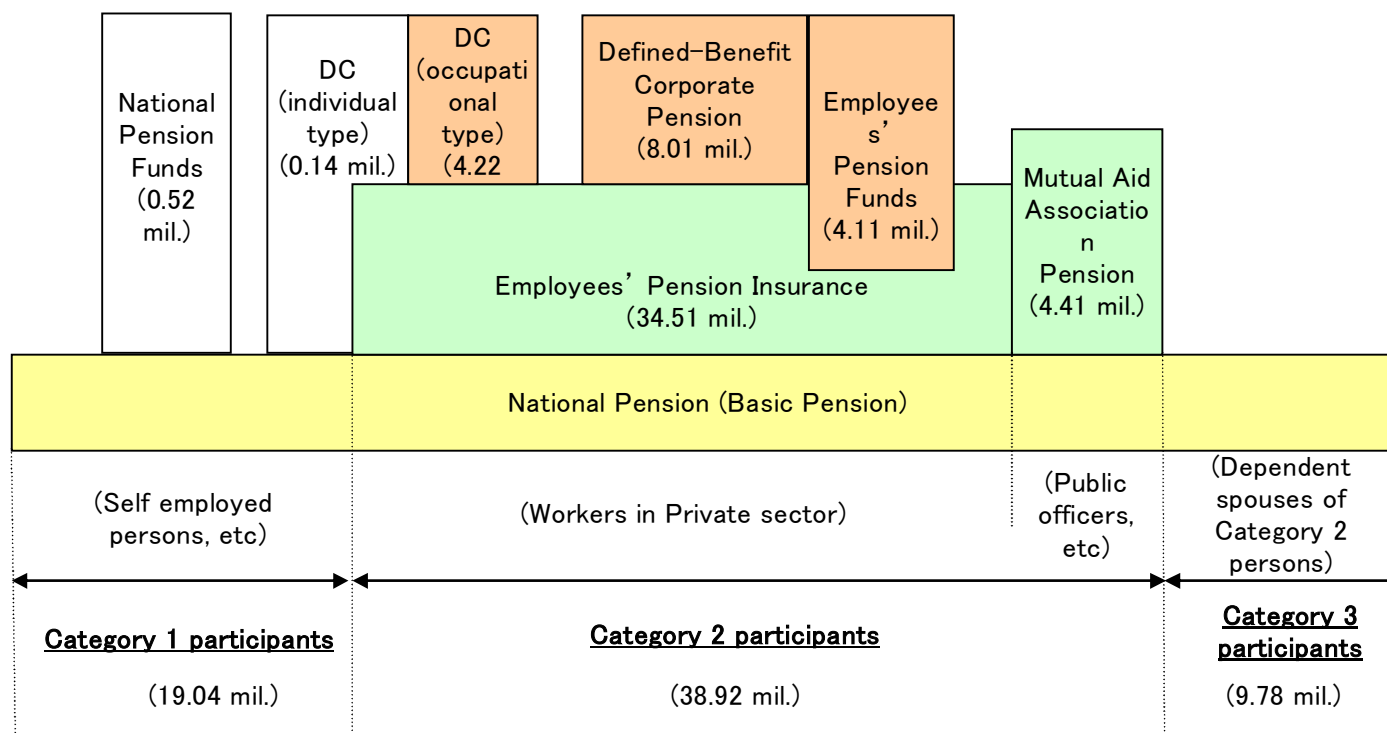


2. The feature of the system of Japan

2.1 Pension Schemes in Japan

(Number of active participants as of March, 2012)

Source : Pension Fund Association



- NP scheme : public pension scheme, a pension insurance system as a whole covering the entire population (category 1,2,3)
- EPI scheme : public pension scheme, workers in private sector
- EPF scheme, DB corporate pension, DC (occupational type) plan : occupational pension schemes, it is voluntary that a company adopts, And usually, these plans are only applied to full-time workers.



2.2 The special features of the employment system in Japan

- In Japan, prevailing employment pattern is not “a job type” but “a membership type”
- And this type of employment is only applied to full-time workers
- They are required to do unlimited kinds of jobs, like the European and American elite layer
- It is generally understood that this is the background, that the post retirement occupational benefit system in Japan, has developed mainly with DB structures





- “A job type” full-time employment will probably be a common employment style, from the global perspective
- It is expected that the number of “job type” full-time employees with limited job ranges will increase further and therefore the structure of post retirement benefit plans will be changed accordingly



2.3 The feature of the social security system

- The public pension schemes in Japan comprise a pension insurance system as a whole covering the entire population
- Companies have played major roles by providing lump-sum retirement benefit plans, until the time that benefit levels of public pension schemes were improved
- And Employees Pension Fund scheme are introduced as a mean of adjusting retirement lump-sum benefits with public pension benefits. It has played the important role in spreading occupational pension plans in Japan.

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- With reference to FUJII (2009), among the 23 advanced countries, DB plans in Japan have “a moderate size” in comparison to the size of their sponsoring entities
 - The averages of the ratios of the total benefit obligations to the equity capital of the sponsoring company
 - Britain is 120.9%, the U.S. is 63.0%, and Japan is 27.7%.

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- Moreover, while in Japan, most of the companies have the ratio of 50% or less, although there are companies with the ratio of more than 100%
 - In the UK and the U.S., overwhelming companies have the ratio of more than 100%
 - As a result, many companies in the U.S have stopped providing DB plans, and buyout transactions have been common in the UK

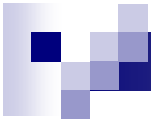


3. What should we do with regard to the pension schemes in Japan



3.1 Diversity is important

- In a whole country, enhancing the diversity of plan administrators improves the sustainability of the pension system, which is same as biodiversity.
- When the pension system was managed by a large group of companies, then it may fall into the situation of so-called “too big to fail”, when the plan is in a financially distressed status.



- On the other hand, if the pension system is divided into small portions, painful measures, such as benefit reduction and increasing premium rates, are only applied to the small groups of companies concerned.
- For individual companies, adopting schemes with different risk characteristics, will improve the sustainability of the system as a whole.



3.2 Middle (income) class workers should be the primary target of public pension policies

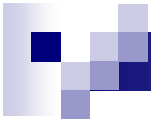
- In order for the society to develop steadily, it is essential to maintain the middle class of workers
- A public pension scheme tends to turn into a minimum income security system, under the environment of low economic growth.
- And income gap among elder population tends to be expanded, if preparation of old age income is left to individual workers.
- By this reason, it is important to keep the system primarily targeting at middle class workers, by encouraging the middle class workers to manage the pension system collectively by themselves



3.3 Concrete Measures

a. Social Policy

- The coverage of the EPI scheme should be expanded gradually so that non-regular workers are covered by the scheme, by relaxing the present restrictions
- If we learn from the lesson of the abolition of the TQPP scheme, adequate consideration should be given before determining abolition of the EPF scheme



b. DB

- Allowing a DB plan of just saving lump sum amounts, and it only plays the role of complementing public pensions

c. DC

- It only plays the role of complementing public pensions and DB plans

d. Others

- The appropriate combination of the above systems is a realistic solution in Japan



4. The role which an actuary should play

- Traditional role

Advising on the plan designs and calculating the premium rates

- Constructive communications

If a problem occurs in a pension system, actuaries are expected to play a role of proposing rational solutions and encouraging constructive communications among the plan participants and the sponsor



- Education

In Japan, one of the backgrounds that have caused reduction of coverage is that, some politicians, who should promote measures to which people feel a sense of relief, provoked the breakdown of the pension system.

For this reason, more fundamentally, education on pension systems to the public, is also important.

Pension actuaries should play a role proactively in the field of educating pension systems to the public.



5. Conclusion

- We must not forget the original social objective of the pension scheme, of providing wider range of people with adequate pensions.
- It is indispensable to consider carefully, whether the reform might damage the original social objective
- It is essential to continue improving the present system gradually, so that the side effects of the reform can be contained in a minimum range