

Brief Overview of 2004 Pension Plan Revision

(tentative translation)

General Affairs Division
Pension Bureau

June 2005

Outline of 2004 Pension Plan Revision

○ Presenting a picture of benefits and contributions over the next 100 years

- The revised pension system takes a balance benefits and contributions over the next 100 years.
- The revised pension sets the floor of benefit levels.

○ Fixing premium level

- The revised pension system fixes premium level from FY2017 onward.
Employees' Pension: 18.3% of wages (rise by 0.354% every year)
Basic Pension: ¥16,900 per month (rise by ¥280 every year)

○ Taking a balance burdens and benefits

- The revised pension system introduce a system to take a balance burdens on the active generation and benefits automatically for adapting to the low fertility.

○ Securing the benefit level to support the basic part of old age

- The benefit level for a standard household is maintained at above 50% of average income of the active generation.

○ Raising the portion of state subsidy for basic pension from 1/3 to half

- The portion of state subsidy starts to be raised in FY2004 and it is completely raised to half by FY2009.

○ Establishing pension plan to meet diversification of lifestyle and working style

- The revised pension system makes improvements on old-age pension system for active workers and child rearing support in pension system.

○ Reinforcing Levy Measures for National Pension Premiums

- The revised pension system introduces a multiple-stage exemption system and a moratorium system to the youth with the aim of making the payment rate 80% in 5 years.

○ Reinforcing publicity to young generation

- The government informs individuals of their pension information periodically in an easy-to-understand way ("Point System").

○ Managing accumulated premiums safely and effectively

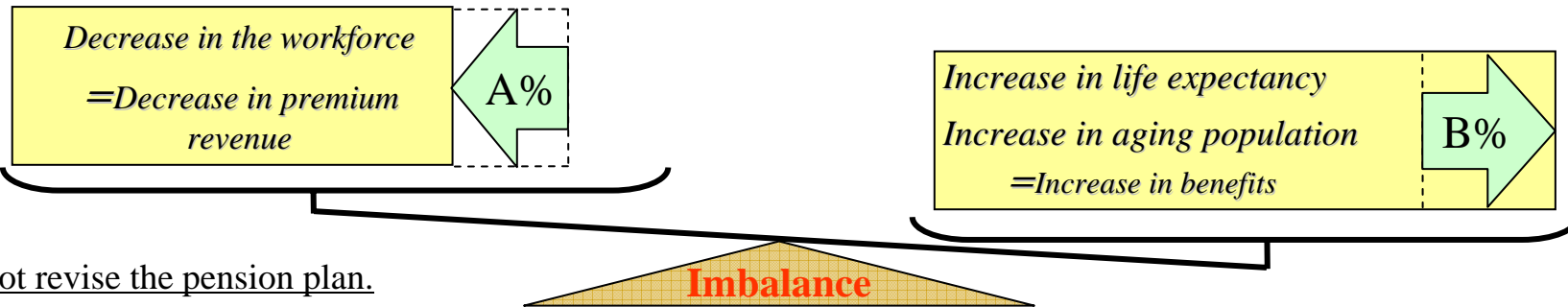
- The government abolishes Government Pension Investment Fund and establishes an independent administrative corporation for management of fund.

○ Eliminating inefficient use of accumulated premiums

- The government abolishes operation of "Greenpia" and financing in FY2005. The pension welfare institution is sold into private hand from now.

Outline of the review of benefits and burdens

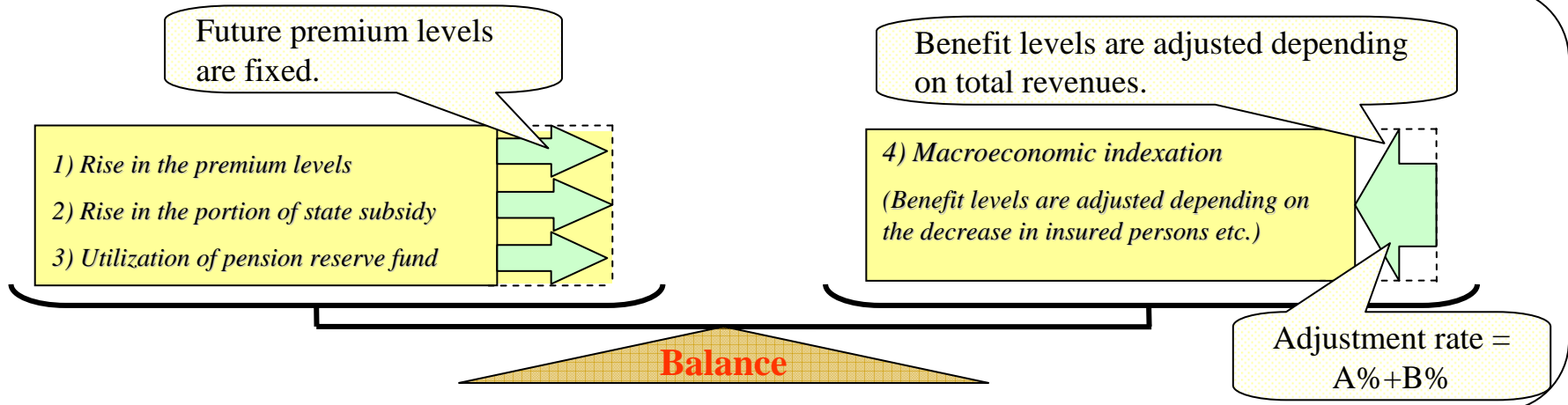
Rapid aging of the population and declining fertility rate



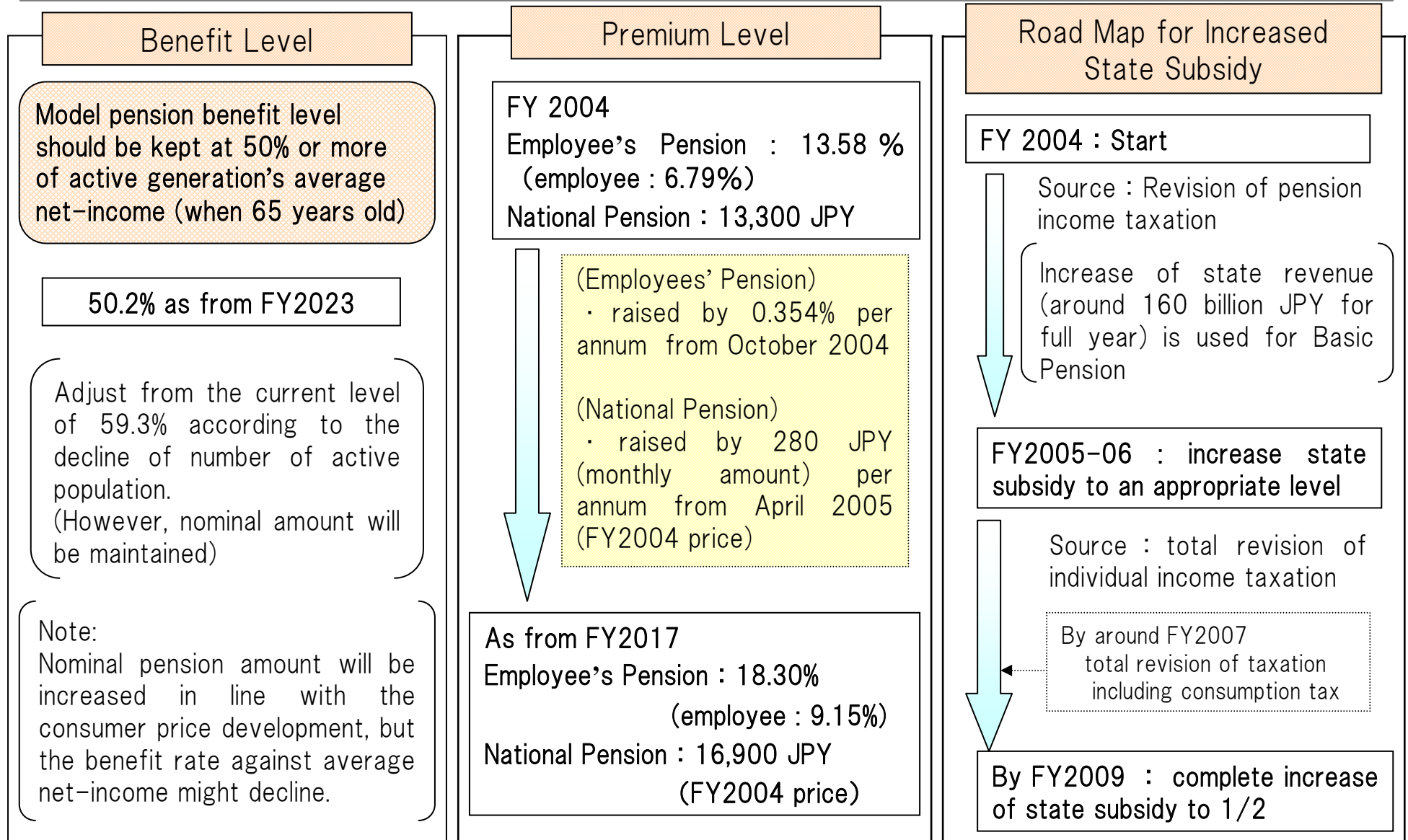
※If we make up for the deficits by pension reserve fund, Employees' Pension Insurance reserve funds will be exhausted by 2021.

2004 Pension Plan Revision

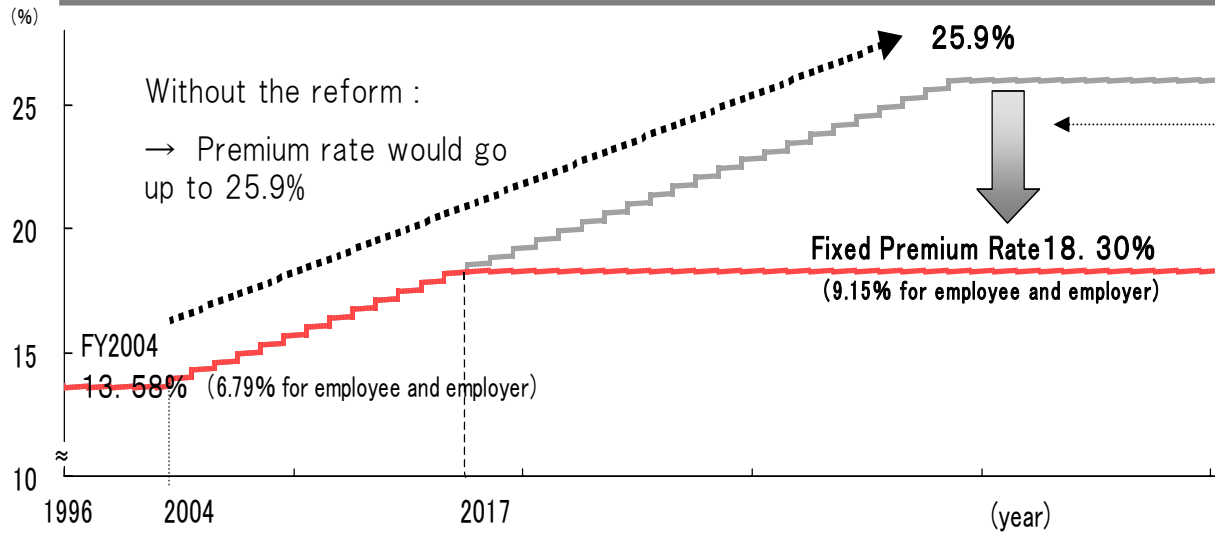
【Keeping the balance between benefits and burdens over the next 100 year】



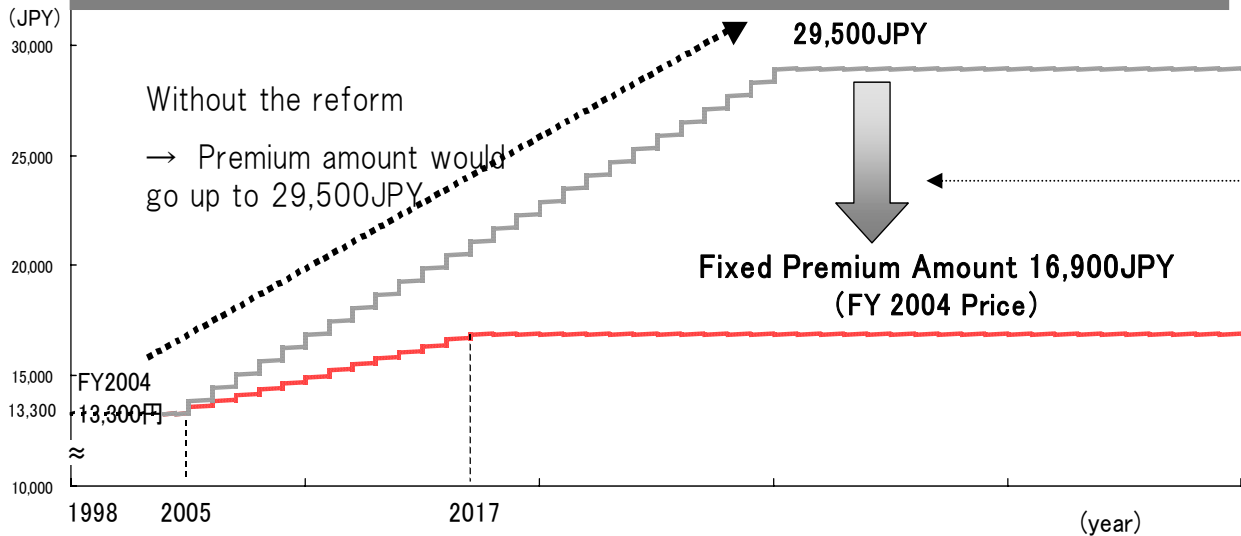
Revision of Benefits and Premiums in the 2004 Pension Reform



Premium Rate for the Employee's Pension Insurance

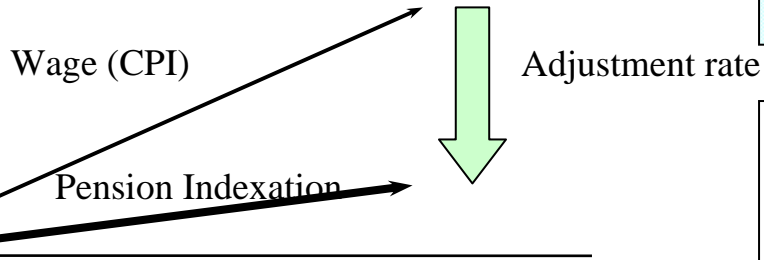


Premium Amount for National Pension



Through increase of state subsidy, using the pension fund accordingly, revision of benefit level and so on, premium level is set **as low as possible**.

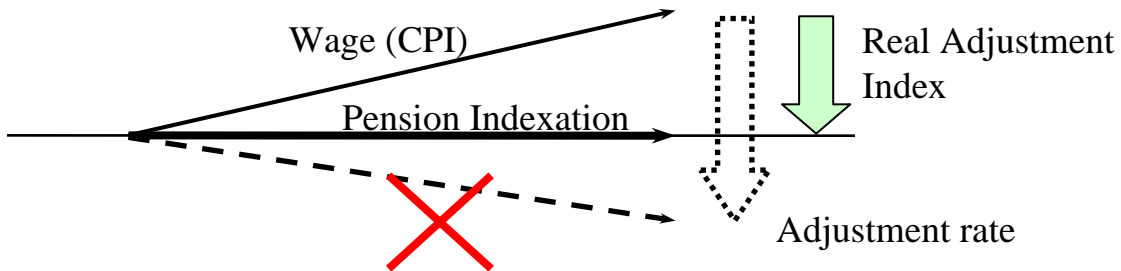
When wage (consumer price) goes up to some extent



Basic Principle of Adjustment indexation

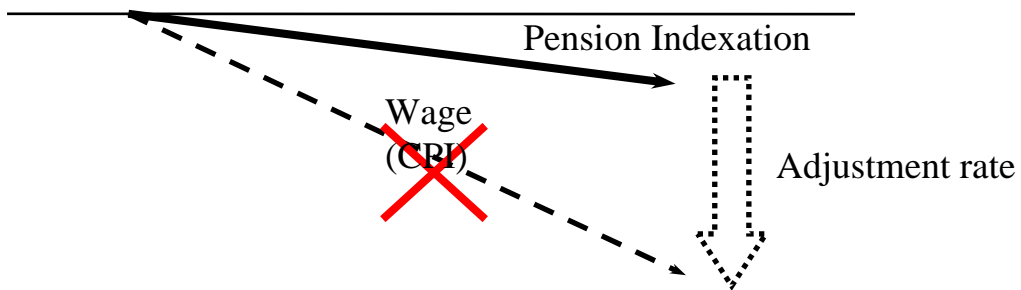
Wage (CPI) increase \geq Adjustment rate
 \Rightarrow Adjustment indexation will function

When wage (consumer price) goes up at small rate



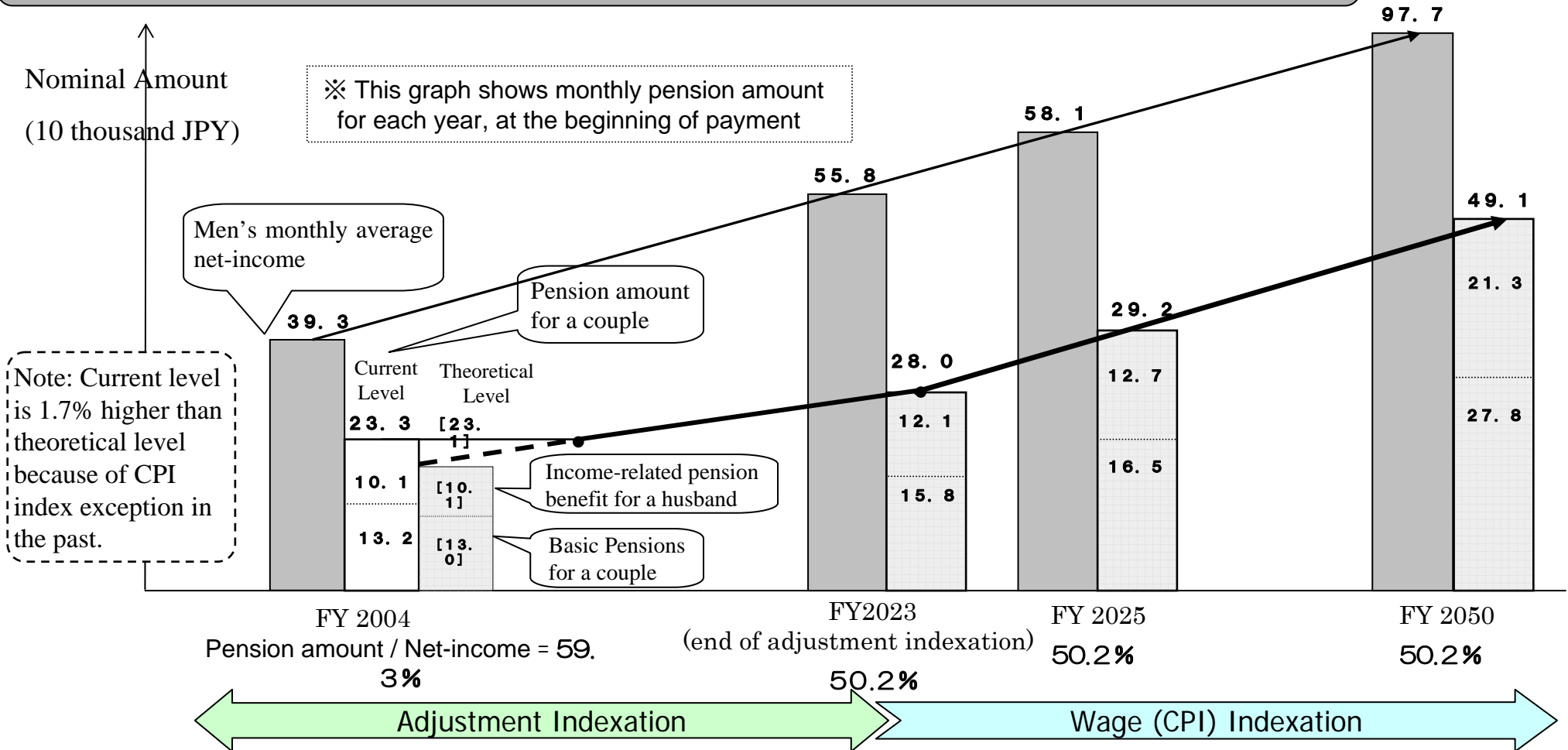
Wage (CPI) increase $<$ Adjustment rate
 \Rightarrow Adjustment indexation will function
(But nominal amount is the lowest.)

When wage (consumer price) goes down



\Rightarrow Adjustment indexation will NOT function

Adjustment Indexation and Development of Benefit Level – Employees’ Pension –



	FY 2004		FY 2023	FY 2025	FY 2050
	Current	[theoretical]			
Income-related benefit	10.1	[10.1]	12.1 (10.1)	12.7 (10.3)	21.3 (13.5)
Basic Pensions for a couple	13.2	[13.0]	15.8 (13.1)	16.5 (13.4)	27.8 (17.6)

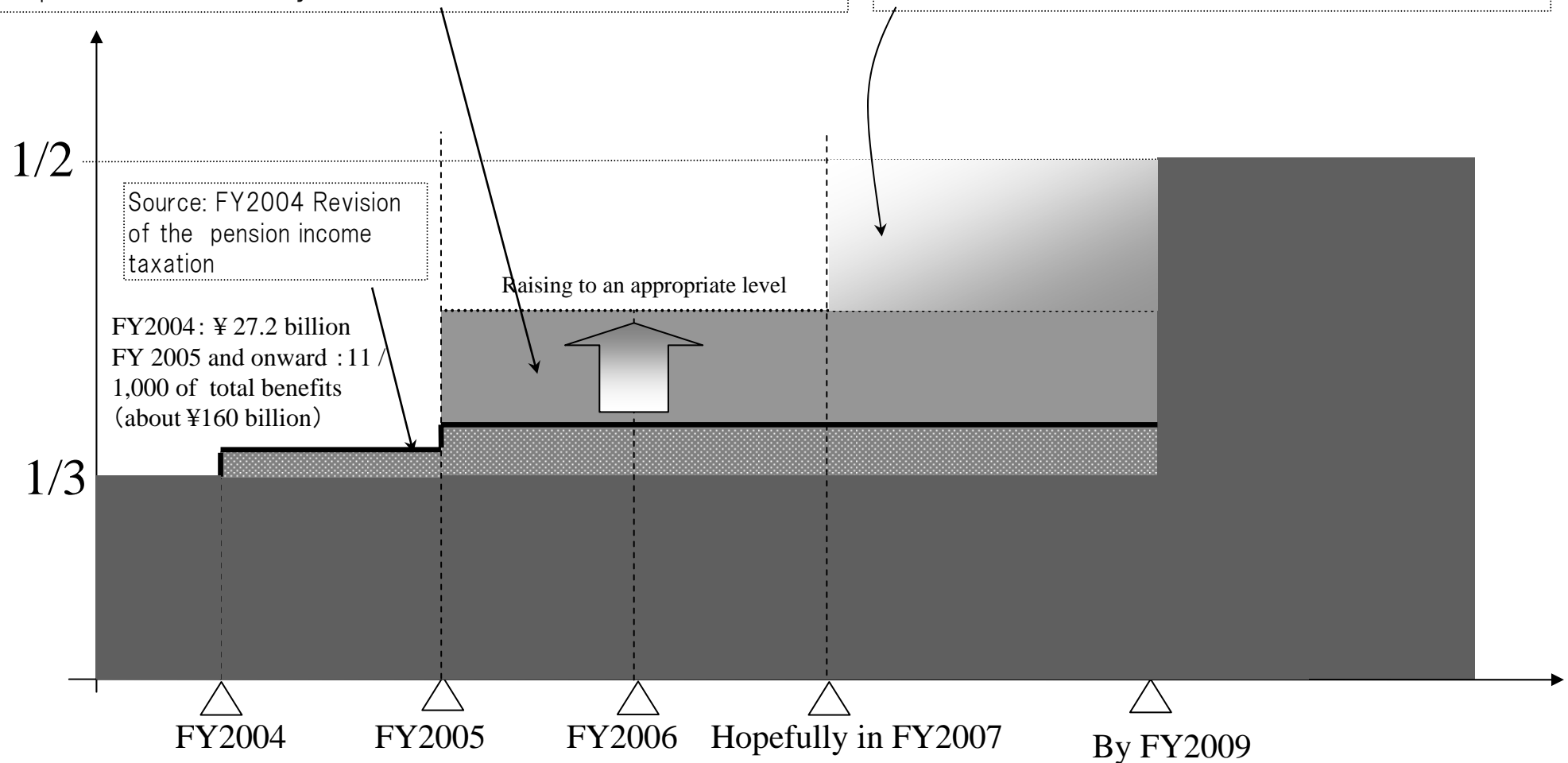
※ Unit: 10 thousand JPY, Figures in parentheses show current price (converted by CPI)

Raising the National Subsidy Ratio for the Basic Pension

【Article 15 of the Supplementary Regulations of the Revised Pension System Law】 The national subsidy ratio shall be raised into an appropriate level by defining in a separate law after required measures for the taxation system are taken based on trends in the Japanese socio-economy.

【Article 16 of the Supplementary Regulation of the Revised Pension System Law】

Concerning the FY when the national subsidy ratio is raised to $\frac{1}{2}$, the government is urged to set the year hopefully to FY2007. The term of raising to $\frac{1}{2}$ is FY2009.



Old-age Pension System for Active Workers over 60

(as from April 2005)

60 - 64

- 20% of pension benefit is cut while working.
- The cut is discontinued by the revised pension system.
- In case that the total of wages and old-age employees' pension benefits exceeds ¥280,000, the amount of old-age employees' pension benefits is cut in a fixed ratio.

65 - 69

- In case that the total of wages and old-age employees' pension benefits exceeds ¥480,000, the amount of old-age employees' pension benefits is cut in a fixed ratio.

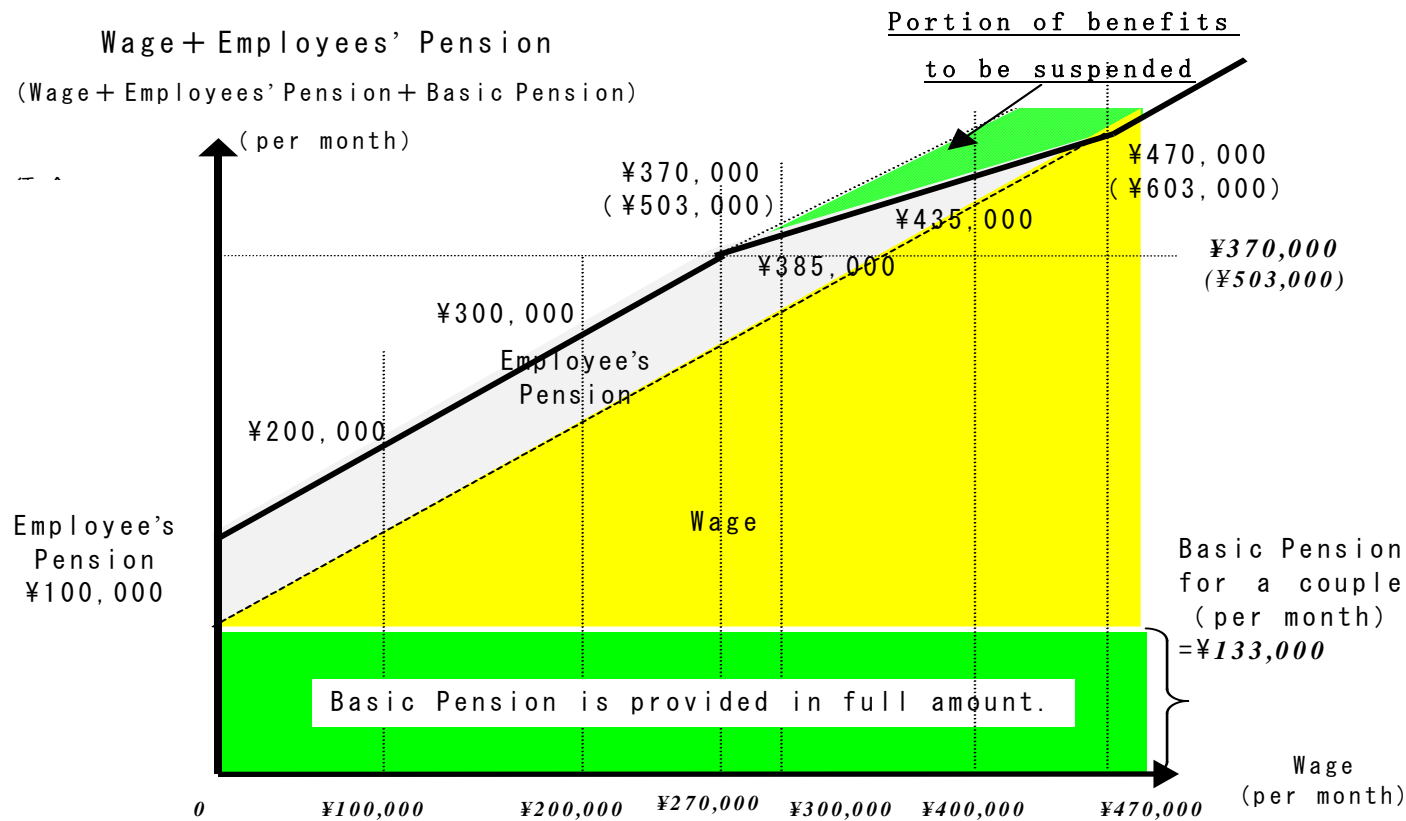
70 -

- (No mechanism is presently introduced to adjust the amount of pension.)
- The revised pension system treats 70-year-old or older persons the same as persons between 65 and 69 years old.

Old-age Pension System for Active Workers over 70 (as from April 2004)

When the total of wages and old-age employees' pension benefits exceeds the average wage of a working insured male, all or part of the old-age employees' pension is suspended.

*No pension premiums are levied.



¥370,000 → ¥480,000 due to the introduction of the total remuneration system since April 2004

Division of Employees' Pension upon Divorce

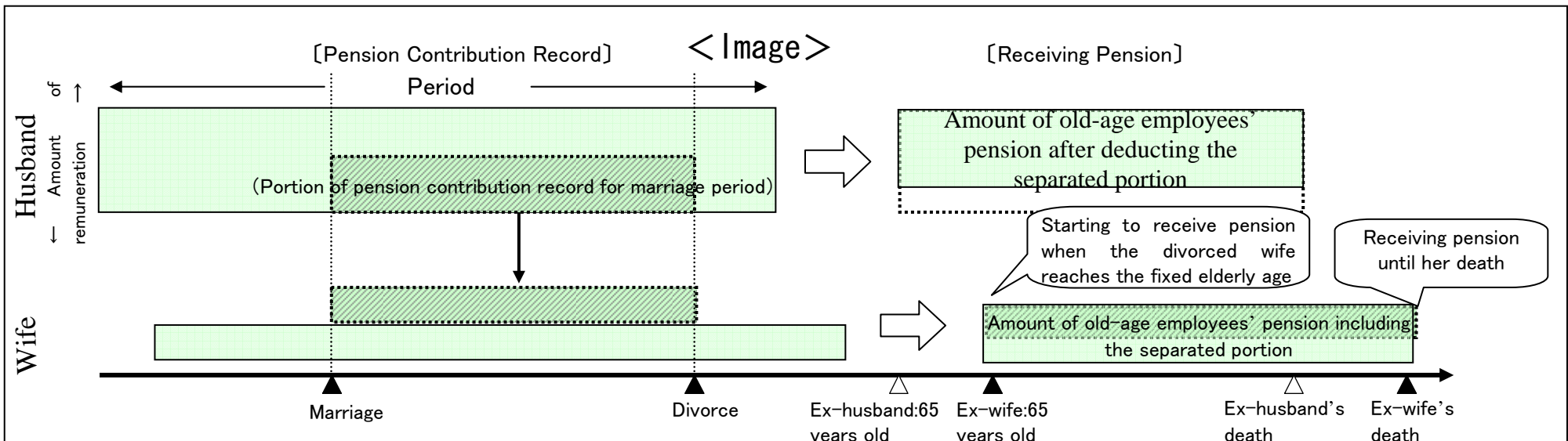
(as from April 2005)

Scheme

- The premium contribution record of the employees' pension of a husband and wife for the marriage period is separated between them upon the divorce.
- This rule may be applied to divorces on and after April 1, 2005 (the enforcement). However, the premium contribution records before the enforcement are subject to separation.
- The division ratio is up to 50%.
- After a divorced husband and wife agree to a division ratio, a spouse applies for the separation of the premium contribution record to a social insurance office.
- If a divorced husband and wife do not reach an agreement, a spouse may request the court to decide a division ratio.

Effects

- A person who got a separation of the premium contribution record can receive a pension according to his/her qualification for employees' pension.
 - No old-age employees' pension is provided until the insured person himself/herself reaches a fixed elderly age.
 - Even when the divorced spouse who got a separate premium contribution record dies, the pension benefits of the other spouse is not affected.
- In principle, the separate premium contribution record is only used as the basis to calculate the amount of employees' pension. It is not used for calculating the pensionable period.



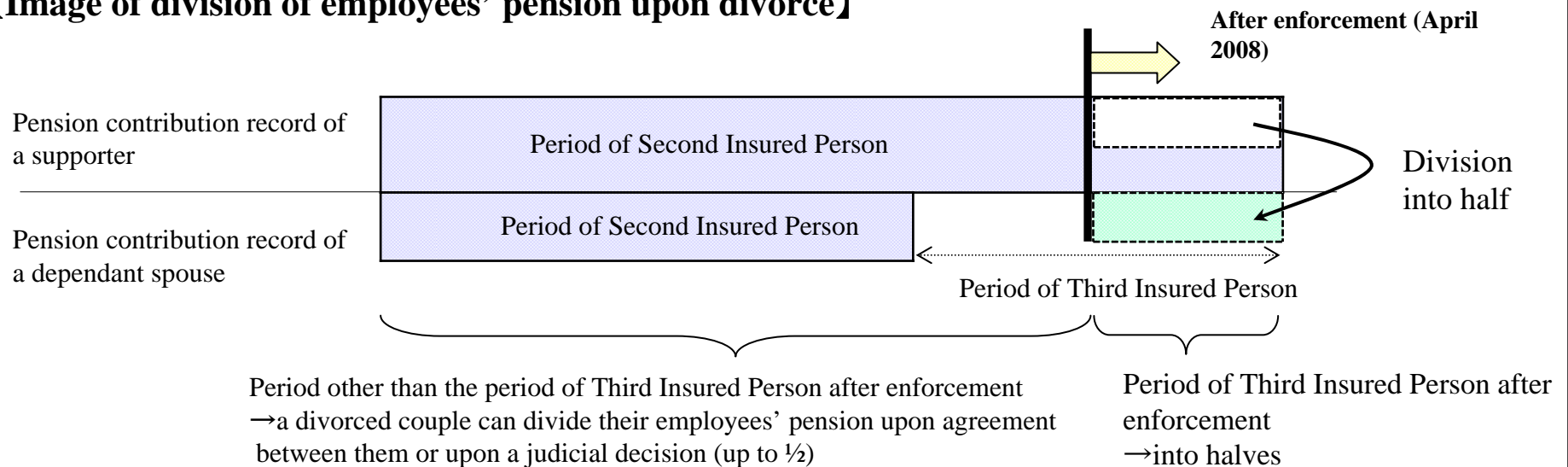
Division of Employees' Pension for the Period of Third Insured Person

【as from April 2008】

- In case that the Second Insured Person has the dependent spouse(Third Insured Person), the premium that the Second Insured Person bore is regarded as the couple's joint burden.
- Concerning the period of a Third Insured Person (period since April 1, 2008), the employees' pension of a Second Insured Person is divided in half in the following cases;
 - ① When a couple divorce
 - ② When an applicant falls into the cases prescribed in an ordinance of MHLW

※ When a divorced couple agreed to do so or when the court has decided to do so, he couple can apply for the separation of their employees' pension for a period not subject to separation (such as a co-working period).

【Image of division of employees' pension upon divorce】



Expansion of Child Rearing Support in Pension System

(as from April 2005)

The revised pension system will expand the following child rearing support measures until a child grows to 3 years old:

- ① Expanding premium exemption system during child-care leave (including leaves pursuant to child-care leave)
- ② Introducing an system that calculate pension benefits based on the wage before childbirth for a person who continues to work under shorter working hours after a baby is born

【Child age】	Fetus	Birth	1 year old	3 year old
(Working conditions)		Child-care leave	Leaves pursuant to child-care leave	
≈ (Wages)		None or lower		
① (Premiums)		exempted		
≈ (Standard remuneration)		↑ Regarded as prior level ↑		
(Working conditions)		Application of short working hour system		
≈ (Wages)		lower		
② (Premiums)		Levied according to wages		
≈ (Standard remuneration)			Regarded as prior level	

《Mechanism of Child-Care Leave Law》

(0 to 1 year old) Child-care leave or measures such as shortening working hours

(1 to 3 years old) Leaves pursuant to child-care leave or measures such as shortening working hours

“Measures such as shortening working hours” are ;

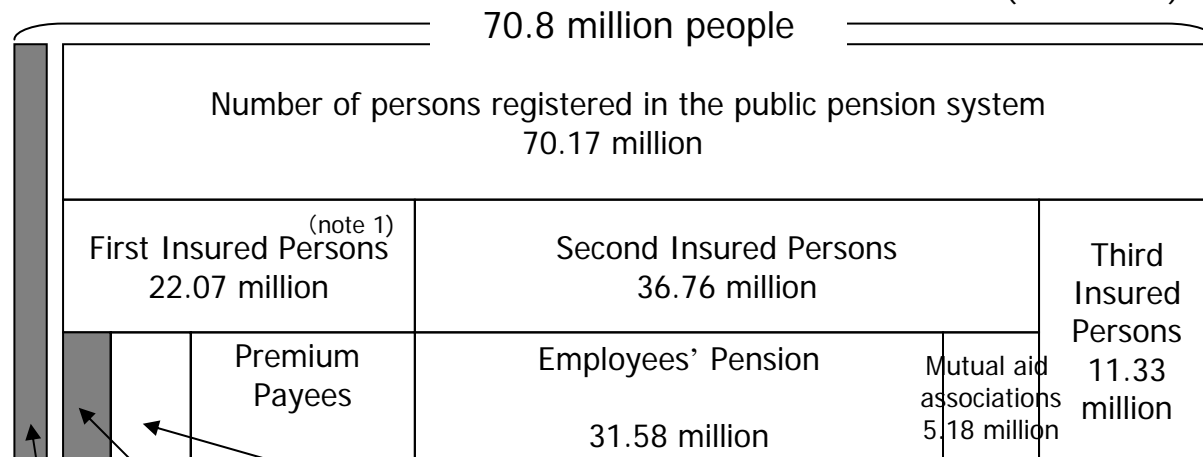
- ① Short working hour system
- ② Flex time system
- ③ Starting at a later time and leaving at an earlier time
- ④ exempting extra work
- ⑤ Setting up and operating a nursery, etc.

State of Non-Registration for the National Pension System and Nonpayment

- The national pension (basic pension) system covers the whole nation. According to a survey conducted in FY2002, non-registered persons and unpaid persons account for 5.5% of the entire persons subject to public pension registration.
- The payment rate of premiums for the national pension is 62.8% (FY2002).
cf. The payment rate of premiums for the employees' pension is 97.6% (FY2001).

《State of persons registered in the public pension system》

(March 2002)



3.9 million
Persons in arrears (note 3)
3.27 million

First Uninsured Person (note 2)
0.63 million

Exempts: 3.76 million
Student special payees: 1.48 million

- Ratios to persons subject to public pension registration (70.8 million)
 - First uninsured persons (0.63 million) 0.9%
 - Persons in arrears (3.27 million) 4.6%
 - Uninsured persons + Persons in arrears (3.9 million) 5.5%

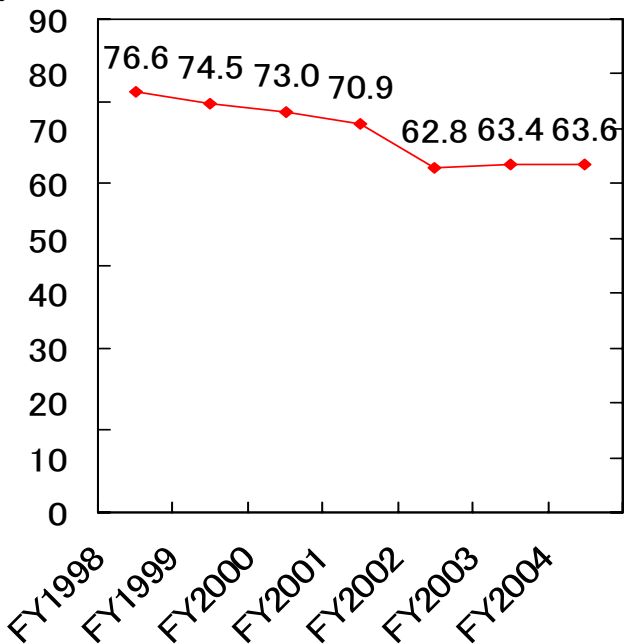
Note 1: as of the end of March 2002

Note 2: as of 15 October 2001

Note 3: "Persons in arrears" means those, out of 17.92 million of the First Insured Persons covered, who paid no premium for the past 2 years.

《Payment rate of the national pension premiums》

(Payment rate : %)



(Calculated from the "National Pension Scheme Performance for FY2002")

Reinforcing Levy Measures for National Pension Premiums

Individual levy Measures based on factor analysis

The revised pension system reinforces payment promotion activities for persons in arrears, such as sending notices, phoning, door-to-door visits.

1 Reviewing the exemption system and publicity

- Introducing a multiple-stage exemption system
- Relaxing income standards centering on single-person households
- Introducing a retrospective measure to apply for an exemption

2 Creating environments that make it easy to pay

- Introducing an account transfer discount system
- Introducing a moratorium system to the youth
- Reviewing the late payment addition rate level

3 Utilizing local-specific networks

- Commissioning a levy service to payment cooperation bodies

Reinforcing the education for premium payment

The revised pension system reinforces publicity to people so that they correctly understand the role and the significance of the pension system and the benefits from premium payment, as well as promoting their awareness that paying premiums is a national obligation. In addition, the government reinforces the education of students on the pension system.

1 Enforcing force levy

2 Obtaining income information

3 Reviewing procedures for social security premium deduction

The government takes measures against persons in arrears for them not to have a social security premium deduction regarding national pension premiums.

Promoting the understanding the pension system

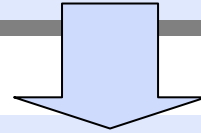
Periodic notice on pension information to individuals

The government informs individuals of their own pension information, such as records of premiums and contributions periodically. A system that insured persons can know their premium payment conditions by annual points (point system) is also introduced.

Working on Promoting the Understanding of the Pension System
(periodic notices on pension information to individuals) (as from April 2008)

Awareness

- The government promotes the understanding of the pension system for working generation, especially young generations.
- The government makes an operational mechanisms so that young generations can have expectations for pension benefits in the future



Notices on pension information to individuals

- The insured persons receive periodic notices on pension information, such as their premium contribution records.
- “Point System” is adopted so that insured persons can know their annual premium payment conditions by points.

Significance of the “Point System”

- Insured persons can check their contribution record and expect to receive increasing benefits in the future.
- Insured persons can understand the formula for calculating pensions.

Mechanism of the “Point System”

$$\text{Points} \times \text{Point unit price} = \text{Expected Benefits}$$

(Indicating benefits of the Basic Pension and the Employees' Pension)

Points : accumulated as premiums are paid

Unit Value: revised annually, in principle

Expected Benefits : accord with the amount calculated based on the legal benefit calculation formula, in principle

※ The “Point System” is a mechanism to notify individuals of their steady increases in pension.