Basic Concept of Public Pension System

(tentative translation)

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Pension Bureau
Ministry of Health, Labor and Welfare

Basic Concept of Public Pension System

1. Basic Facts on the Public Pension System

Public pension system is the only system that guarantees income in our long old age, regardless of any economic changes in the future.

Necessity of Public Pension

1. In order to live our lives out without anxiety, an income should be guaranteed that ensures nearly the same standards of living as in employment.

2. To ensure such an income, we face three risks.
   (1) We cannot predict life expectancy at retirement.
   (2) Economic changes, such as increases in wages and consumer prices, over the long period from employment to retirement, is enormous and unpredictable.
   (3) We cannot rule out the possibility of becoming disabled or of dying, in which case the family is left without a wage earner.

3. With such risks present, it is very difficult to ensure the income necessary for life after retirement on an individual basis.
   (1) Savings: Given your own life span and economic changes in the future are unpredictable, it is difficult to estimate the necessary amount of money after retirement and to live only on your own savings.
   (2) Support from children: Parent-child support relationship is changing and the lower birth rate places a greater burden on children to support their parents in Japan. It is difficult to keep relying on children.

4. Only Public Pension System, which is based on the intergenerational support system can promise the ensured income, regardless of any economic changes the future may bring.

Role of Public Pension System

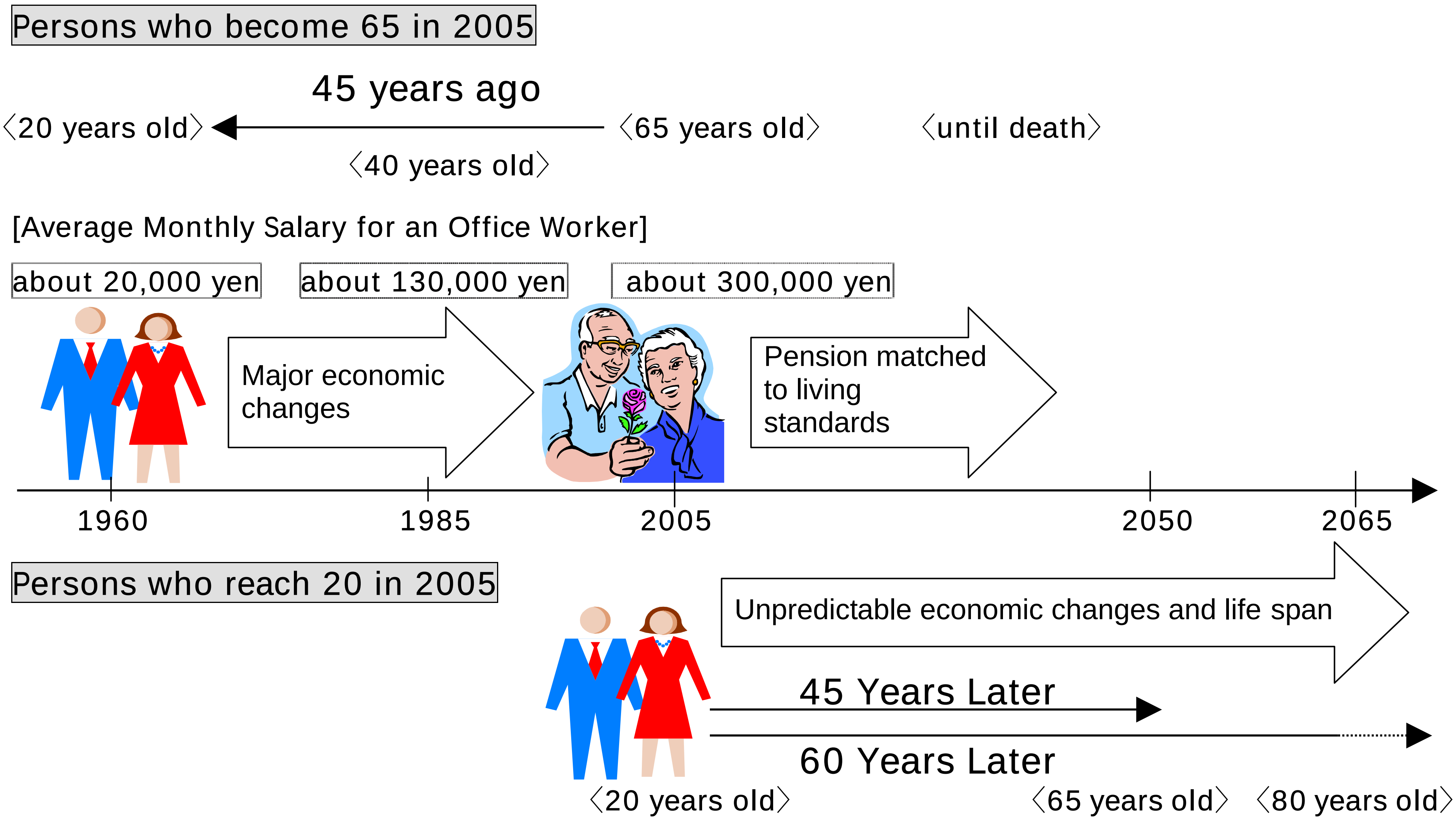
1. Public Pension System adopts a social insurance system based on the concept of intergenerational support.
   (1) Intergenerational support: The concept of mutual support across generations to handle unpredictable economic changes over a long period, such as wage increases and consumer price rises.
   (2) Social insurance: The mutual support system in which every member of society cooperates and makes self-help efforts of paying the premium.

2. The only system that guarantees a stable life after retirement is to combine the intergenerational support with self-help efforts of paying the premium.
   Public Pension System is constructed on the basic concept that "the premium paid by the current working generation covers the current aged citizens' pension benefits. Then, when the current working generation becomes aged, the premium paid by the next generation supports their pension benefits, in turn, in proportion to their premium records, in other words, their contributions to the pension benefits for the aged in the past, and this cycle will be repeated."
   This system combines the concepts of intergenerational support with each citizen's self-help efforts. We need to have every citizen understand that this system has been adopted by the major countries of the world and that it is the only system that guarantees a stable life after retirement, handling economic changes over a long period, such as wage increases and consumer price rises.

3. No personal pension plans, whose enrollment is voluntary, has a system in which the benefit is indexed to the level of wages and consumer prices.
   The social insurance system is indexed to wages and consumer prices and based on intergenerational support that ensures a income to maintain standards of living not that much different from the previous working life, regardless of any economic changes in the future. It can not exist if enrollment is left up to each individual.

4. Therefore, it is necessary for every citizen to properly recognize the importance of intergenerational support system through self-help efforts of paying premiums, and to make an effort to maintain this system.

(Reference 1) The length of time and major economic changes, from enrollment in the public pension system to receipt of the benefits



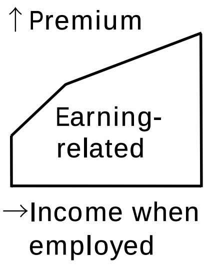
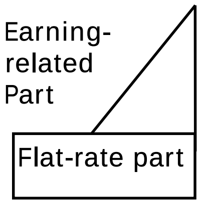
(Reference 2) Public Pension Systems in Developed Countries

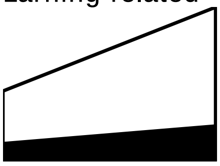
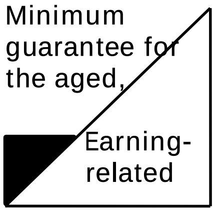
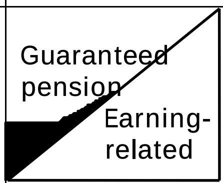
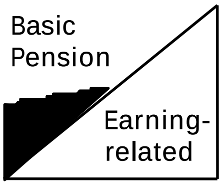
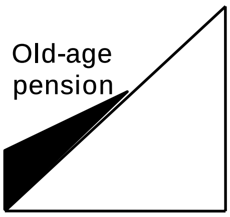
1. Almost all major countries have adopted a social insurance system (pay-as-you-go social insurance) based on intergenerational support for a public pension system.

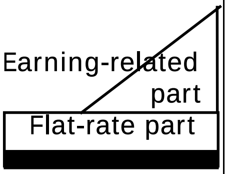
   *Tax system: a system where the government uniformly pays the basic livelihood expenses from taxes, once citizens reach a certain age, regardless of the individual amount of premiums contributed.

2. Germany and other countries, where demographic aging started much earlier, have a small reserve fund. Japan, in contrast, has a comparatively large reserve fund in order to yield income from investment. This is to keep the premium from rising sharply and becoming an excessively heavy burden on the working generation amid the rapid aging.

3. In almost all major countries, public pension systems have earning-related parts, which corresponds to the second tier of Japan's public pension system (Employees' pension and Mutual aid associations).

Country	Public Pension System Social Insurance Tax	Enrollees (in case of social insurance system) (◎ compulsory, △ voluntary, × not enrolled)	Social insurance system or tax system	Adoption of Intergenerational support system (pay-as-you-go method) in social insurance system (the amount of the reserve fund is in parenthesis)
USA		Employees (those with more than $830 (approximately ¥100,000) annual income) Self-employed (those with more than $400 (approximately ¥50,000) annual income) × unemployed	Social insurance	Intergenerational support (Benefit of about two years)
UK		◎Employees (those with more than £67 (approximately ¥11,300) weekly income), (those with less are △) ◎Self-employed (those with more than £3,825 (approximately ¥650,000) annual income), (those with less are △), ×unemployed	Social insurance	Intergenerational support (Benefit of about two months)

Germany	Earning-related 	◎Employees (short-time workers within 15 hours of work per week, and those with less than 620 Marks (approximately ¥30,000) monthly income are △), △Self-employed (◎ depending on type of business), and unemployed	Social insurance	Intergenerational support (Benefit of about one month)
France		◎Employees, Self-employed △Unemployed	Social Insurance (Minimum guarantee benefit for the aged is available from tax for those with a small pension or a low income)	Intergenerational support (Benefit of about one month) →scheduled to increase this amount in future
Sweden		◎Employees, Self-employed ×Unemployed	Social insurance (Guaranteed pension is available from tax for those with a small pension), →Basic pension was revised in 1999 from tax system to social insurance system	Intergenerational support (Benefit of about four years) 〈2000〉 →1999 pension revision introduced the funding method partially
Canada		◎Employees, Self-employed (those with more than $3,500 (about ¥240,000) annual income) ×Unemployed	Social insurance (Basic Pension and supplementary benefit is available from tax for those with a small pension or a low income)	Intergenerational support (Benefit of about two years) →By the 1998 revision, it is scheduled to increase to 4 – 5 years' worth.
Australia	 Earning-related (compulsory saving)	(8% of salary is compulsorily saved for old age. This fund is invested to pay the benefit after retirement.)	Compulsory saving for old age (Old-age pension is available from tax for those with a small pension or low income), →The tax system was revised to a supplementary method, and the compulsory saving system was introduced in 1992.	—

New Zealand	Fixed amount benefit	(Source of benefit is tax and all the inhabitants are covered.)	Tax	—
Japan		◎Employees, self-employed, unemployed	Social insurance →The state subsidy is increased from 1/3 to 1/2 by FY 2009	Intergenerational support (Benefit of about five years) →2004 pension revision adopted the limited balance method. This method defines the financial balance period as a period in which the generations that are born can mostly receive benefits until they die, during which expenditure needs to be balanced with revenue. In the last fiscal year of the financial balance period, only the reserve for payment is left. The financial balance period is moved based on the result of periodical financial verifications.