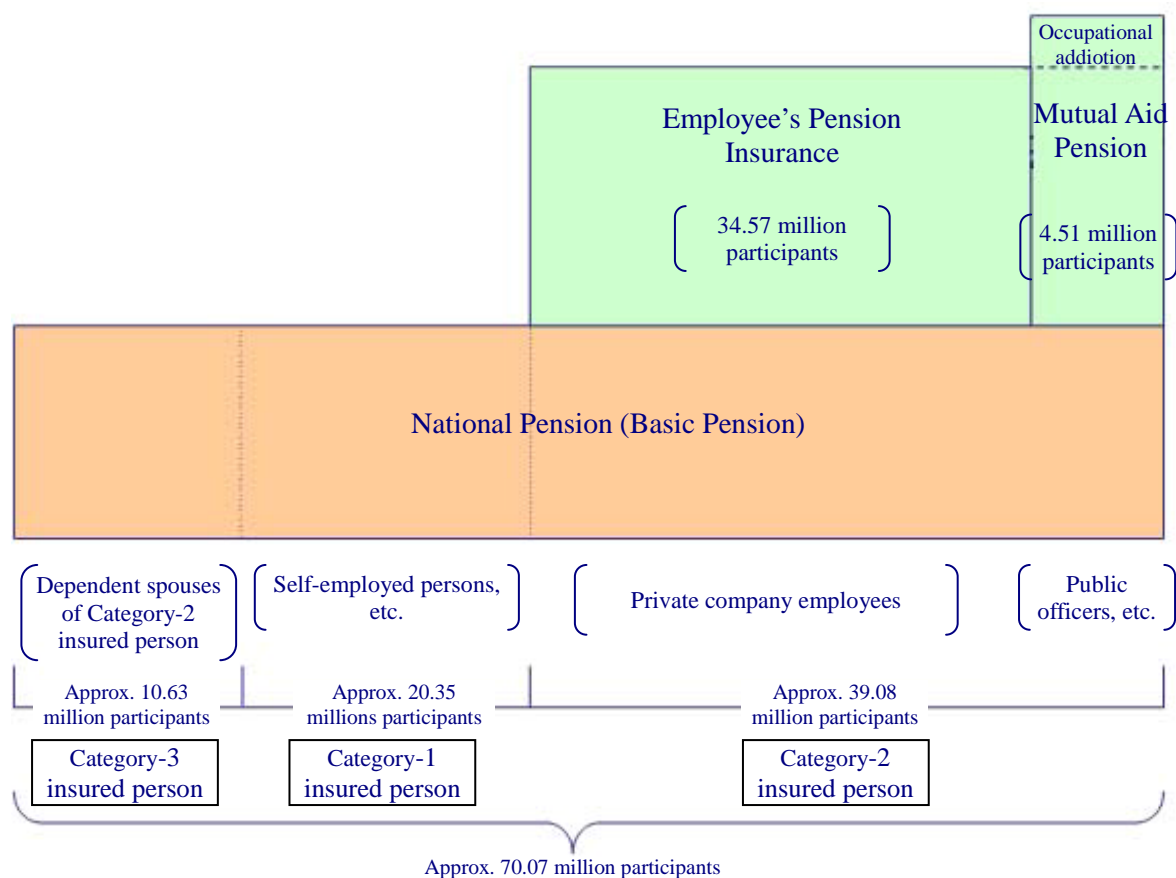


# Chapter 1 Overview of the Pension System in Japan

## [Structure of the Public Pension System]

(The figures are as of 31 March 2008.)



| Category-1 insured person  | Category-2 insured person   | Category-3 insured person   |
|--|---|---|
| <ul style="list-style-type: none"> <li>○ Self-employed persons, farmers, etc. aged 20 or over but under 60.</li> </ul>                             | <ul style="list-style-type: none"> <li>○ Private company employees, public officers.</li> </ul>   | <ul style="list-style-type: none"> <li>○ Dependent spouses of private company employees, public officers.</li> </ul>  |
| <ul style="list-style-type: none"> <li>○ Each pays a fixed amount of premium. 14,660 yen per month (From April 2009 through March 2010)</li> </ul> | <ul style="list-style-type: none"> <li>○ Remuneration-based premium. Premium rate of the Employees' Pension Insurance is fixed at 15.704% (from Sep. 2009 to Aug. 2010)                             <ul style="list-style-type: none"> <li>• The premium is raised by 0.354% every year.</li> <li>• Insurance premiums based on total remunerations in April 2003 and after.</li> <li>• Appropriated for the Basic Pension and Employees' Pension Insurance (remuneration-based portion) for Category-2 and Category-3 insured person.</li> </ul> </li> <li>○ Employers and employees bear evenly the premium.</li> </ul> | <ul style="list-style-type: none"> <li>○ The insured themselves bear no cost.</li> <li>○ The premium is paid by the insurer of the pension the husband (wife) is participating in.</li> </ul> |
| The national subsidy ratio is 1/2 for the basic pension.   |   |   |

## Basic data

- Amount of the Old-Age Pension benefit (as of April 2009)
  - Self-employed persons (amount for a Category-1 insured person of 40 years of enrollment period): 66,008 yen per month
  - Retired salaried workers and spouses  
Total of the Employees' Pension Insurance of Category-2 insured person (average income for 40 years of enrollment period) and of the Basic Pension (40 years of enrollment period) for a husband & wife couple: 232,592 yen per month
- The number of public pension beneficiaries (as of 31 March 2008): 34.8 million persons
- Premium income from the entire public pension system (based on the FY2009 budget): 32 trillion yen
- The amount funded by the national subsidy from the entire public pension system (based on the FY2009 budget): 10.8 trillion yen
- Benefits from the Public Pensions (as of 31 March FY2009): 49.7 trillion yen
- Reserve (The National Pension and the Employees' Pension Insurance) (based on the current value at the end of FY2008): 124 trillion yen)

## Categories and Premiums of Insured Persons (Members)

All people of working generation must participate in the National Pension. According to their occupations, they are classified into three categories of the National Pension such as Category- 1, 2 and 3 insured person. Also, this categorization decides possible additional pension system in which they can join.

The pension benefits are determined by the schemes with which insured persons are covered before their application for pension benefits.

## Categories and Premiums of Members

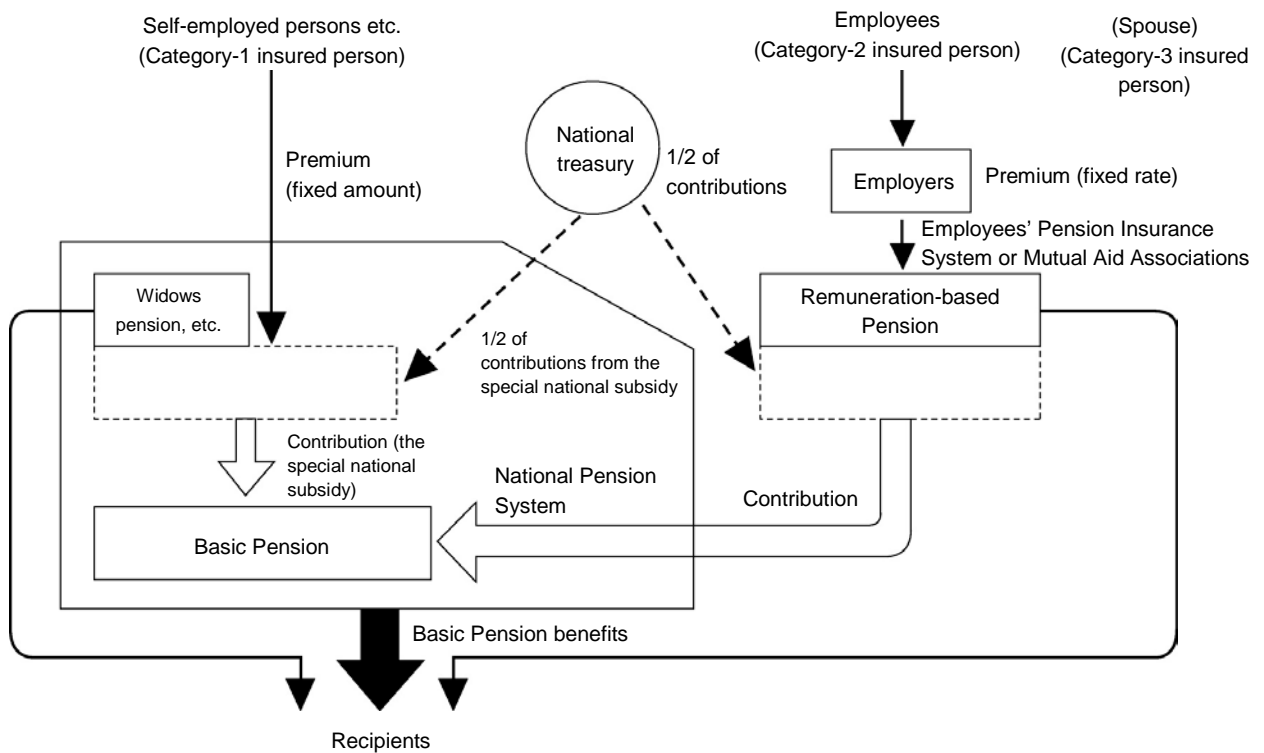
| Occupation etc.  |   | Schemes and premium  |                              |
|--|---|--|------------------------------|
|  |   | Scheme   | Premium                      |
| Self-employed persons, farmers, students, etc. (those of 20 years and over – under 60 years old, excluding those shown in the following columns) |   | National Pension<br>[No. 1 insured person]   |                              |
|  |   | 14,660 yen per month<br>(fixed amount)<br>* The premium is increased by 280 yen each year and finally fixed at 16,900 yen.   |                              |
| Emplo-<br>yees   | Employees under 70 years old in private sector covered by the Employees' Pension Insurance (Private company workers etc.) | National Pension<br>[Category-2 insured person]  | Employees' Pension Insurance |
|  | Public employees and private schools' teachers and employees  | National Pension<br>[Category-2 insured person]  | Mutual Aid Pension           |
| Full-time housewives etc.<br>Dependent spouse of the employee (wife or husband), who make a living mainly by the employees' income)              |   | National Pension<br>[Category-3 insured person]  |                              |
|  |   | The insured pay no premium (it is borne by the Employees' Pension System (the Employees' Pension or the Mutual Aid Pension) in which his or her spouse has participated) |                              |

(Note) The premium rates are the standard as of October 2009.

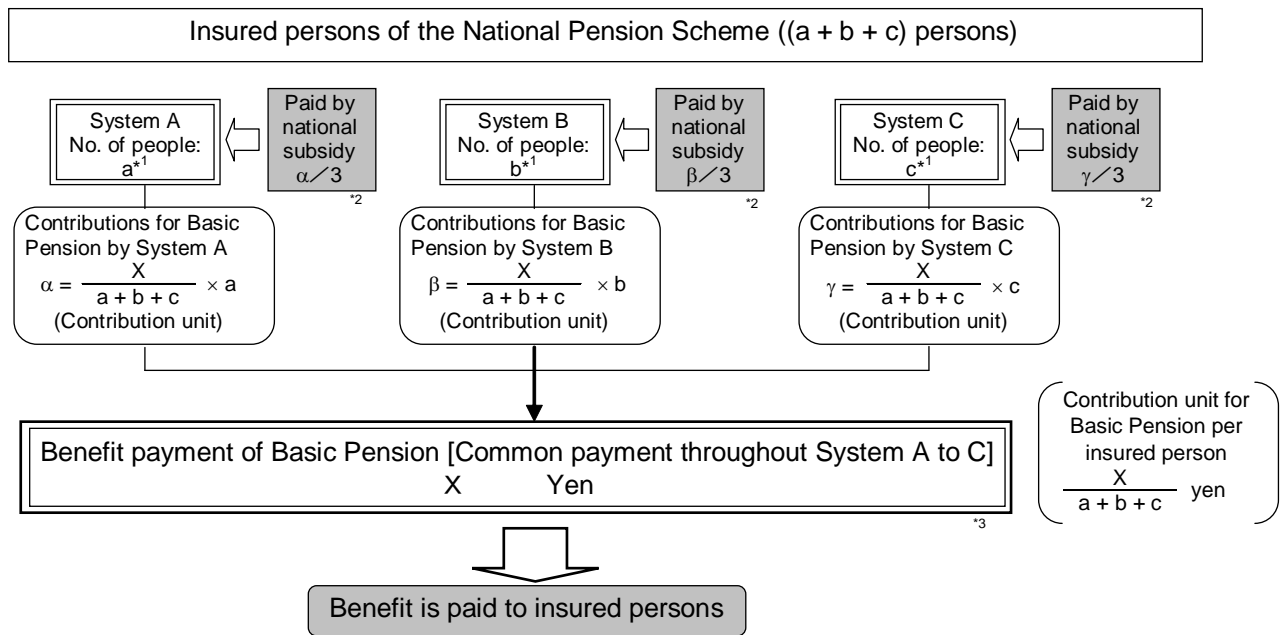
## Structure of Financial Resources for the Basic Pension

The financial resources of the Basic Pension comprise ① contributions of the National Pension (Category-1 insured person pays contribution individually), ② contributions from insured persons of the Employees' Pension Insurance and Mutual Aid Associations (the Employees' Pension Insurance and Mutual Aid Associations contribute to the National Pension according to the number of Category-2 insured person and their spouse, Category-3 insured person.), ③ National subsidy (in principle, 1/2 of the expense of the Basic Pension).

### Cost Burden for the Basic Pension



## Structure of Cost Burden for Basic Pension (by contributions and national subsidy)



\*1 The number of people in the Employee's Pension Insurance System is counted: a. for insured persons from 20 to 59 years old; b. including dependant spouses of the insured persons (Category-3 insured person of the National Pension System). Also, number of people in the National Pension System is counted by the number of people paying the premium.

[→ Basic period for calculation of future Basic Pension benefit is objective for calculation of contributions]

\*2 Amount corresponding to 1/2 of contributions made by each system is paid by the national treasury to each system. (For the Local Public Service Employees MAA, each local municipal corporation will pay.) Thus, 1/2 of total Basic Pension benefit is paid by the national subsidy. Additionally, a. benefit corresponding to the exemption period and b. high rate payment by the national subsidy for disabled persons whose first hospital visit is before 20 years old, are paid specially by national treasury.

\*3 Benefit payment of the Basic Pension includes benefits of the Basic Pension based on the New Pension Law after the revision of 1985, and proportionate amount for the Basic Pension (deemed Basic Pension) in the pension benefit payment based on the National Pension Act, the Employees' Pension Insurance Act, and each MAA Act before the revision of 1985.

## Table of the Public Pension System

### ○ The National Pension System

(As of 31 March 2005)

| Category                                       | Number of the insured persons<br>① | Number of beneficiaries of the Old-Age Basic Pension, etc.<br>② | Pension support ratio<br>①/② | Average monthly benefit of the Old-Age Basic Pension, etc. (excluding advancement and postponement) | Real total expenditures | Reserve Book Value (Current Value) |              | Reserve ratio Book Value (Current Value) | Premium (as of April 2009) | Pensionable age of the Old-Age Basic Pension |   |   |
|--|------------------------------------|---|------------------------------|---|-------------------------|------------------------------------|--------------|--|----------------------------|--|---|---|
|  | 10 thousand people                 | 10 thousand people  |                              | 10 thousand yen   | trillion yen            | trillion yen                       | trillion yen |  | Yen                        |  |   |   |
| Category-1 insured person                      | 2,035                              | 2,601   | 2.67                         | 5.8   | 4.2                     | 8.3                                | [8.5]        | 3.7 [3.9]                                | 14,660                     | 65 years old                                 |   |   |
| Category-2 insured person                      | 3,837                              |   |                              |   |                         |                                    |              |  |                            |  |   |   |
| Category-3 insured person                      | 1,063                              |   |                              |   |                         |                                    |              | —  | —                          |  | — | — |
| Total  | 6,975                              |   |                              |   |                         |                                    |              |  |                            |  |   |   |
| Total of insured persons of the public pension | 7,007                              |   |                              |   |                         |                                    |              |  |                            |  |   |   |

- (Note)
1. In addition, there are 20,000 beneficiaries of the Old-Age Welfare Pension.
  2. Category-1 insured persons include insured persons who voluntarily subscribe to the insurance.
  3. The number of persons eligible to receive the old-age basic pension, etc. includes the number of persons eligible to receive the old-age basic pension, the number of persons eligible to receive basic pensions for the elderly under the former National Pension Act, and the number of persons aged 65 and over in the employees' pension system that are eligible to receive old-age (retirement) pensions under the former Act.
  4. The average monthly amount of the old-age basic pension is the monthly amount for persons eligible to receive the old-age basic pension, excluding advance and postponed payments. In addition, the average monthly amount of the old-age basic pension, etc. is 54,000 yen, which includes the portion of advance and postponed payments to persons eligible to receive the old-age basic pension as well as the portion to persons eligible to receive the old-age basic pension under the former National Pension Act.
  5. Real total expenditures consist of the amount excluding receipts from the basic pension account deriving from benefits, plus the amount that is carried over from the basic pension account.
  6. Reserve (Current Value) is based on the current-price evaluation of the portion in the pension assets which is invested in the capital markets including the gains and losses included in the assets carried over from the Pension Welfare Service Public Corporation. Distribution of the gains and losses between the Employees' and National Pensions are based on the comparison between the average reserve balances of the two pension systems.
  7. The total of insured persons of the public pension is the total of persons insured for employee pension and of Category-1 and Category-3 insured persons.

## ○ Employees' Pension System

(As of 31 March, 2008)

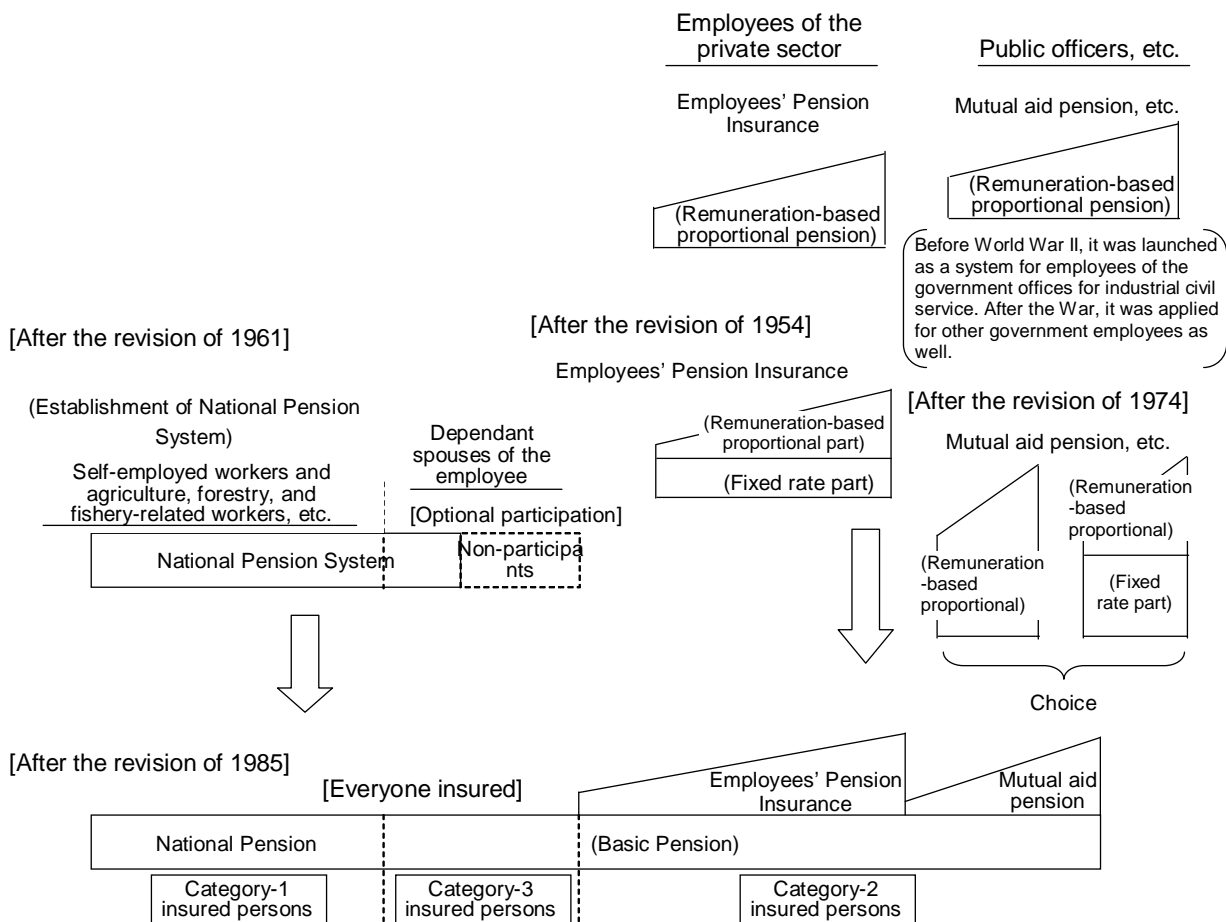
| Category   | Number of persons covered<br>① | Number of beneficiaries of the Old-Age (Retirement) Pension (Corresponds to old age and retirement)<br>② | Pension support ratio<br>①/② | Average monthly benefit of the Old-Age (Retirement) Pension (Corresponds to old age and retirement) (excluding advancement and postponement) | Real total expenditures | Reserve<br>Book Value<br>(Current Value) |              | Reserve ratio<br>Book Value<br>(Current Value) | Premium rate<br>(as of April 2009) | Pensionable age of the Old-Age (retirement) Pension<br>(FY 2009)  |
|--|--------------------------------|--|------------------------------|--|-------------------------|--|--------------|--|------------------------------------|---|
|  | 10 thousand people             | 10 thousand people   |                              | 10 thousand yen  | trillion yen            | trillion yen                             | trillion yen |  | %                                  |   |
| Employees' Pension Insurance                                 | 3,457                          | 1,260  | 2.74                         | 16.7   | 33.1                    | 127.1                                    | [130.2]      | 4.7 [5.1]                                      | 15.350                             | Remuneration-based portion<br>General men, women: 60 years old<br>Miners, sailors: 58 years old<br><br>Fixed-amount portion<br>General men, Female subscribers of EMAA: 63 years old<br>Female subscribers of the Employees' Pension Insurance: 62 years old<br>Miners, sailors: 58 years old |
| The National Public Service Personnel Mutual Aid Association | 106                            | 65   | 1.62                         | 22.1   | 2.0                     | 8.8                                      | [8.9]        | 6.7 [7.0]                                      | 15.025                             |   |
| Local Public Service Personnel Mutual Aid Association        | 299                            | 167  | 1.79                         | 22.8   | 5.2                     | 40.2                                     | [39.9]       | 10.5 [11.1]                                    | 14.800                             |   |
| Private School Teachers and Employees Mutual Aid Association | 46                             | 10   | 4.67                         | 21.5   | 0.4                     | 3.5                                      | [3.4]        | 10.1 [10.6]                                    | 12.230                             |   |
| Total  | 3,908                          | 1,502  | 2.60                         | 17.6   | 40.6                    | 179.5                                    | [182.4]      | 5.5 [5.9]                                      | -                                  |   |

(Notes)

- The number of recipients of the Old-Age (retirement) Pension of the Employees' Pension Insurance and the amount of average monthly pension include the arbitrated portions of recipients of the former Mutual Aid Associations of Japan Railway, Nippon Telegraph and Telephone, Japan Tobacco, and Agriculture, Forestry and Fishery Corporation Personnel before they were integrated into the Employees' Pension Insurance.
- The number of eligible recipients of the Old-Age (retirement) Pension of Mutual Aid Associations includes those related with a deducted retirement pension. (This is also applicable to those related with the Mutual Aid Associations of the former three public corporations and the former Mutual Aid Associations of Agriculture, Forestry and Fishery Corporation Personnel, which were included in the Employees' Pension Insurance.)
- The calculation of the average monthly benefit was made by including that of the Old-Age Basic Pension. However, the following are excluded: those who have opted for advance/postponed payments (including reduced retirement allowances), and those who have reached the age where they should begin receiving the portion proportionate to remunerations but not the age where they should be receiving the fixed portion.
- Real total expenditures consist of the amount excluding basic pension benefits derived from benefits plus the matched contribution to basic pensions.
- The Employees' Pension Insurance premium rates are 16.2% both for miners and for sailors. The premium rates of insured persons which are used at the applied establishments of the applied entities and designated corporation for the former Mutual Aid Associations are 15.69% for Japan Railway and 15.55% for Japan Tobacco. In addition, the premium rate of insured persons which is used at the applied establishments of the Agriculture, Forestry and Fishery Corporations, etc. is 15.058%.
- The reserves of the employees' pension insurance do not include the portions of the reserves that are substituted by the employees' pension fund.
- Reserve (Current Value) of the Employees' Pension is based on the current-price evaluation of the portion in the pension assets which is invested in the capital markets including the gains and losses included in the assets carried over from the Pension Welfare Service Public Corporation. Distribution of the gains and losses between the Employees' and National Pensions are based on the comparison between the average reserve balances of the two pension systems.
- Reserve ratio is an index indicating how many years' amount (excluding national subsidy and public finance payment) paid by premium contributions among the substantial expenditures would be equivalent to a reserve balance as of the end of the previous fiscal year. (It is different from the extent of reserve indicating how many years' total substantial expenditures including national subsidy and public finance payment additional expenses would be equivalent to a reserve balance as of the end of the previous fiscal year.)

## Chapter 2 History of the Public Pension System

- Japan's social insurance style public pension system was launched as the Employee's Pension System (Employees' Pension Insurance, etc.) for employees.
- When it was launched, the structure was a single layer of remuneration-based proportional pension. In the revision of 1954, the Employees' Pension Insurance was restructured to a two-layer system, of a fixed rate part (the first tier) and a remuneration-based proportional part (the second tier).
- In 1961, the National Pension System for self-employed workers and agriculture, forestry, and fishery-related workers was established. Due to the differences of work style and income between the insured people of these two systems, and also for other reasons, the insurance premium payment, benefit payment, and others are handled by each different method from that time onward.
- In the revision of 1985, Basic Pension was established as a common system for all citizens.

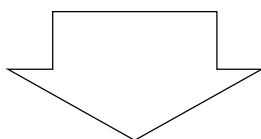




## History of the Public Pension System and Its Major Revisions

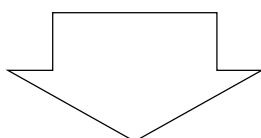
### <Creation of Schemes>

- |      |  |
|------|--|
| 1942 | : The Workers Pension Insurance Act was enacted (Renamed in 1944 as the Employees' Pension Insurance Act.)   |
| 1954 | : The Employees' Pension Insurance Act was entirely revised (Actual start of benefit payment for the elderly) <ul style="list-style-type: none"><li>• Introduction of a benefit payment system of "fixed rate part + remuneration-based proportional part"</li><li>• Introduction of modified funding method</li></ul> |
| 1961 | : Implementation of the National Pension System (Launch of "universal pension system")   |



### <Improvement of Schemes>

- |      |   |
|------|---|
| 1965 | : Improvement of benefit payment level, achievement of "10,000 yen pension," establishment of the Employees' Pension Fund   |
| 1966 | : Achievement of "10,000 yen pension" for married couples in the National Pension System  |
| 1969 | : Achievement of "20,000 yen pension" (Standard pension benefits of Employees' Pension Insurance: 20,000 yen, the National Pension: 20,000 yen for married couples) |
| 1973 | : Introduction of Price Indexation System and reevaluation of salary (Achievement of "50,000 yen pension")  |



### <Measures for the Arrival of the Full-scale Aging Society>

#### [The revision of 1985]

- |   |
|---|
| <ul style="list-style-type: none"><li>○ Establishment of nationally common Basic Pension system supported by citizens.</li><li>○ Adjustment of benefit payment to be made more appropriate (Payment unit and payment rate were decreased gradually, assuming the participation period would be extended to 40 years at the mature phase)</li><li>○ Enforced participation of dependent spouses (housewives) of employees to the National Pension System (Establishment of Category-3 insured persons system), and by this, establishment of pension right for women</li><li>○ Improvement of disability pension (Insurance of Disability Basic Pension for persons who became disabled before 20 years old)</li><li>○ Expansion of the Employees' Pension coverage for companies with less than five workers</li><li>○ Raising of pensionable age of women for the Old-Age Employees' Pension (From 55 years old to 60 years old by 2000)</li></ul> |
|---|

**[The revision of 1989]**

- Introduction of full automatic Price Indexation System
- Enforced participation of students to the National Pension System
- Establishment of the National Pension Fund (Establishment of the regional-type National Pension Fund, relaxation of the conditions for establishment of business area-type National Pension Fund)
- Establishment of the Financial Interchange Program among the Employee's Pension System (Abolished in FY1997)

**[The revision of 1994]**

- Revision of the Old-Age Employees' Pension for people in their early 60s (Raising of pensionable age for the fixed rate part gradually from 60 years old to 65 years old by 2013)
- Improvement of Old-Age Pension for Active Workers (Change to a system in which total amount of wage and pension benefits will increase as wage increases), Balance adjustment with unemployment insurance payment
- Change of the reevaluation system of salary (Reevaluation corresponding to raising rate of disposable income after increases in tax and social insurance fee)
- Improvement of the Survivors' Pension (Corresponding to an increase of double-income households, it allowed the double-payment of 1/2 of each Old-Age Employees' Pension to reflect wives' premium on the pension benefits.)
- Exemption from the Employees' Pension Insurance premium (for the person in question) while on child-care leave.
- Creation of the special premium (1%) based on bonus, etc. for the Employees' Pension Insurance

**[The revision of 1996]**

- Integration of three Mutual Aid Associations of the former public corporations (JR, JT, and NTT) into the Employees' Pension Insurance

**[The revision of 2000]**

- Raising of pensionable age for the remuneration-based proportional part of the Old-Age Employees' Pension (Gradually from 60 years old to 65 years old by 2025)
- Change of the pension revision system (Listed subscribers' pension (65 years old and over) was revised as only by Price Indexation System)
- Adjustment of benefit payment of the Employees' Pension Insurance to be made more appropriate (Adjustment of 5% of the remuneration-based proportional part. Previous payment amount was guaranteed.)
- Expansion of the Employees' Pension Insurance coverage for the people in their late 60s (To expand to people under 70 years old. Establishment of the Old-Age Pension for Active Workers for workers of 65 to 69 years old.)
- Introduction of full remuneration-based system (Same rate premium on bonus, etc. was imposed and reflected on the benefit payment. Special premium was abolished.)
- Exemption from the Employees' Pension Insurance premium (for the payment by business owner) while on child-care leave.
- Enhancing the National Pension System by expansion of premium exemption, etc. (Establishment of the half premium exemption system, establishment of the exceptional payment system for students)

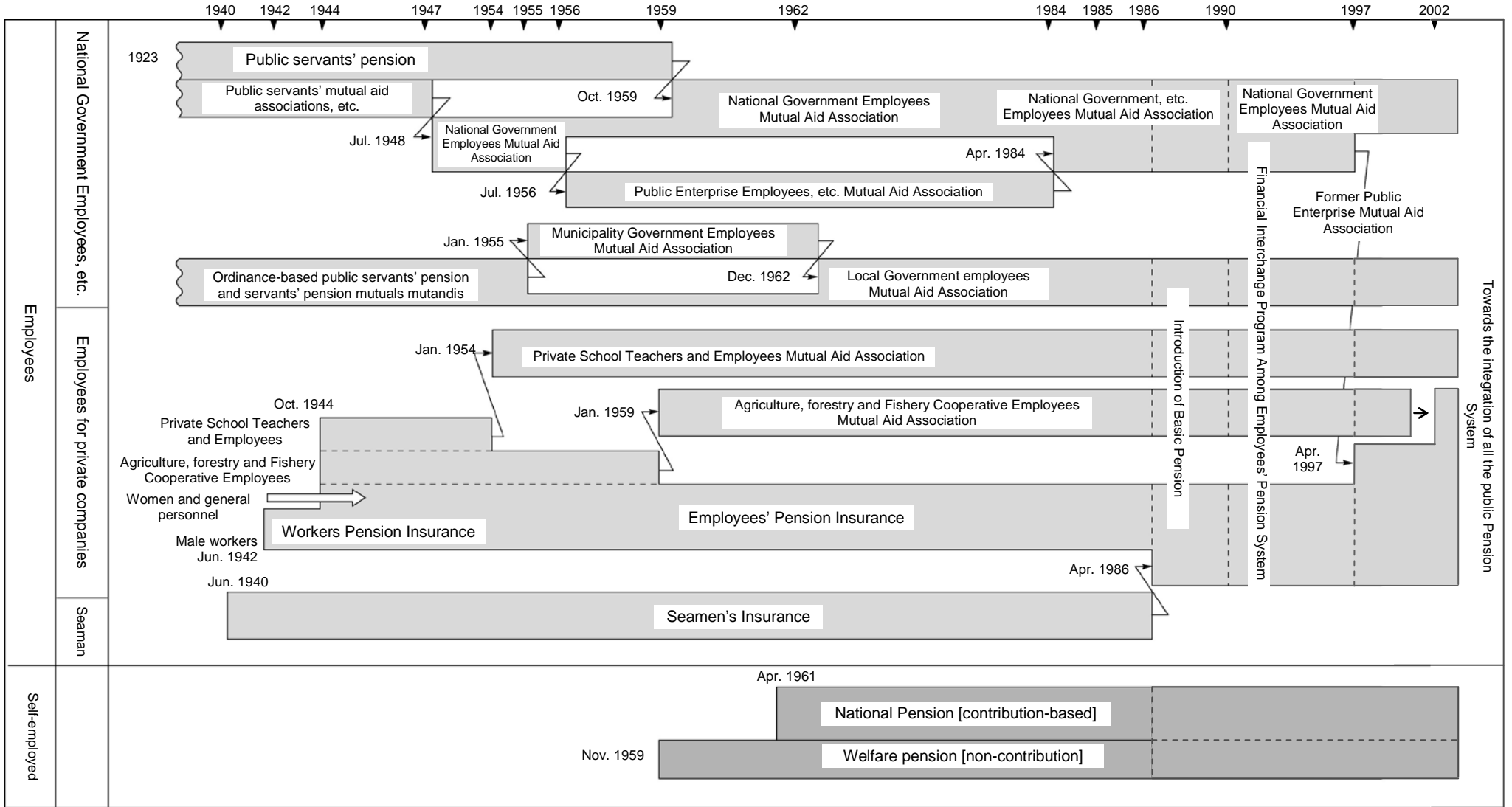
**[The revision of 2001]**

- Integration of the Mutual Aid Associations of Agriculture, Forestry and Fishery Cooperative Employees into the Employees' Pension Insurance

**[The revision of 2004]**

- Reviewing the benefit payment and contribution  
(Introducing the insurance premium level fixation method and the macro-economic indexation, utilizing the pension reserve as resource funds, and raising the proportion funded by the national subsidy for the Basic Pension to 1/2. (\* This will be implemented in a certain fiscal year separately specified in the Act.)
- Reviewing the system of the Old-Age Pension for Active Workers  
(Reviewing the system of the Old-Age Pension for Active Workers who are in their early 60s, introducing the system of delaying pensionable age for those who are 65 years or over, and adjusting the amount of benefit payment of the Old-Age Employees' Pension for those insured employees who are 70 years old or older.)
- Enhancing considerate measures for the insured who engage in childcare (Enhancing the measure for exempting those who are on child-care leave from paying the premium and introducing the measure for deemed standard monthly remuneration during the childcare period to be equal to the former standard monthly remuneration)
- Reviewing the Survivors' Pension system
- Introducing the division of benefit payment of the Employees' Pension Insurance in cases of divorce, etc. and the division of the duration to be Category-3 insured person of the Employees' Pension Insurance

## Developments of the Public Pension System



## Chapter 3 Structure of Public Pension System

### Kinds of Benefit of the Public Pension System in Japan

Basically, pension benefits under the public pension system are provided in the following three cases:

- (1) When an insured person reaches an old-age.
- (2) When an insured person becomes disabled due to disease and/or injury.
- (3) When a pension recipient or an insured person (participant) is dead.

|                    | Old-Age (Retirement) Pension  | Disability Pension            | Survivors' Pension            |
|--------------------|-------------------------------|-------------------------------|-------------------------------|
| Basic Pension      | Old-Age Basic Pension         | Disability Basic Pension      | Survivors' Basic Pension      |
| Employees' Pension | Old-Age Employees' Pension    | Disability Employees' Pension | Survivors' Employees' Pension |
| Mutual Aid Pension | Retirement Mutual Aid Pension | Disability Mutual Aid Pension | Survivors' Mutual Aid Pension |

Here, the Basic Pension and the Employees' Pension will be explained.

#### (1) The Old-Age Pension

1) Qualifying condition for pension benefit:

- In principle, those with a participation period of 25 years or more in the National Pension are qualified for receiving Old-Age pension benefits.
- Pensionable age is as follows:

(Old-Age Basic Pension)

- In principle, 65 years old.
- The insured can receive this benefit when he/she becomes 60 years old, but, in this case, the amount of pension benefit is reduced.
- The insured can delay the receipt of this benefit until he/she becomes 70 years old, and, in this case, the amount of pension benefit is increased.

Rate of reduction / increase when pension claims are brought forward / deferred

| Age at the time of claiming for pension benefit | Reduction / increase rate, applicable to those born on or after April 2, 1941 | Reduction / increase rate, applicable to those born on or before April 1, 1941 |
|---|---|--|
| 60  | 30%   | 42%  |
| 61  | 24%   | 35%  |
| 62  | 18%   | 28%  |
| 63  | 12%   | 20%  |
| 64  | 6%  | 11%  |
| 65  | —   | —  |
| 66  | 8.4%  | 12%  |
| 67  | 16.8%   | 26%  |
| 68  | 25.2%   | 43%  |
| 69  | 33.6%   | 64%  |
| 70  | 42%   | 88%  |

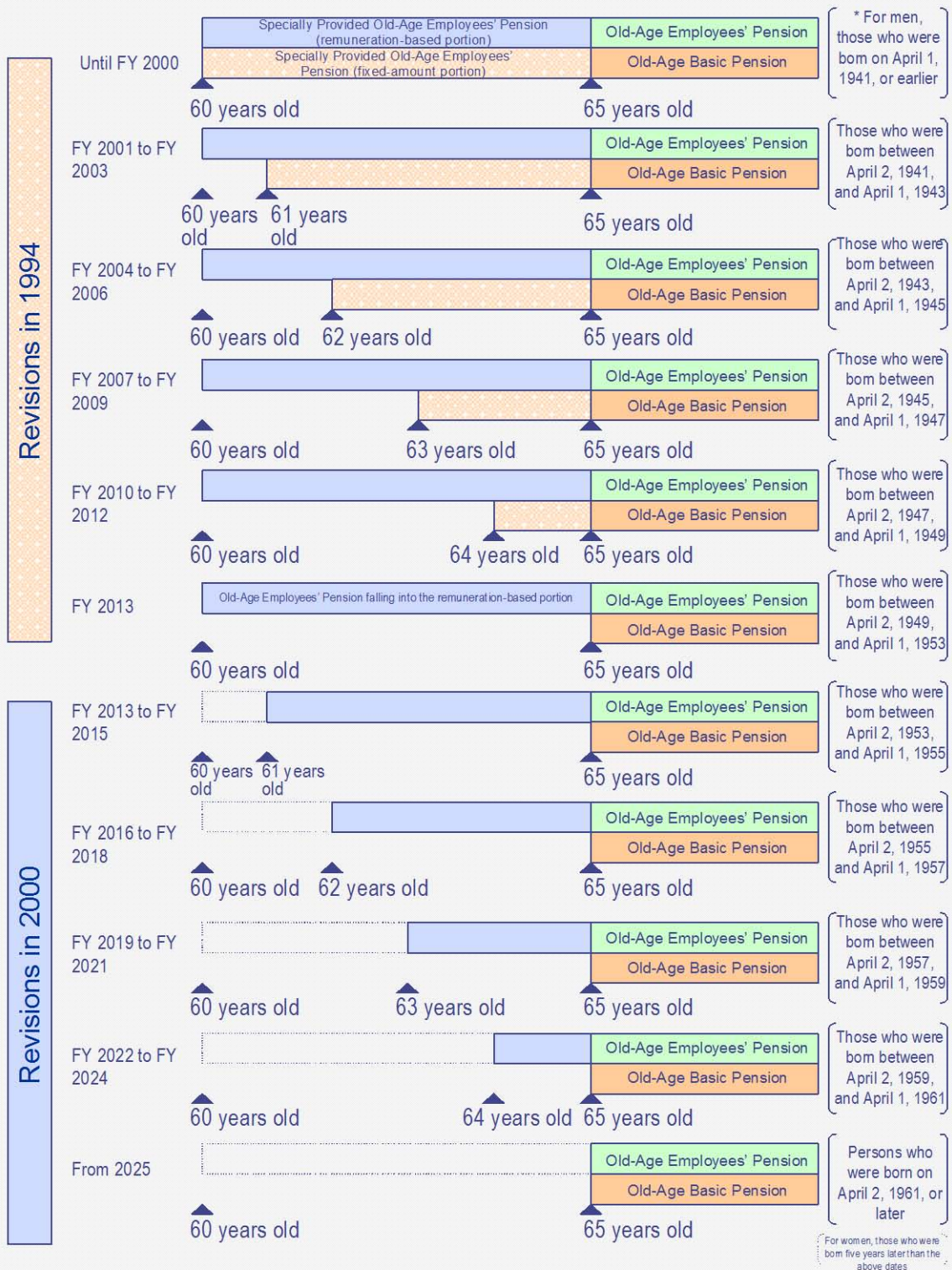
(Note) The rate of reduction / increase applicable to those born on or after April 2, 1941, is calculated based on the number of months pension claims are brought forward / deferred.

- Reduction rate:  $0.5\% \times$  "Number of months pension claims are brought forward"
- Increase rate:  $0.7\% \times$  "Number of months pension claims are deferred"

(The Old-Age Employees' Pension)

- At present, the insured can receive the benefit of the “Specially Provided Old-Age Employees’ Pension”, composed of the remuneration-based and fixed-amount portions, when he or she becomes 60 years old, and of the “Old-Age Employees’ Pension”, which is remuneration-based, from 65 years old.
- The Amendment of 1994 has specified that the pensionable age for the fixed amount portion (the 1st tier) of the “Specially Provided Old-Age Employees’ Pension” shall be upward to 65 years old according to the date of birth-based formula as is indicated in the Tables below. This step is to be carried out from year 2001 till 2013.
- The Amendment of 2000 presents to propose that, after 2013, the pensionable age for the remuneration-based portion of the “Specially Provided Old-Age Employees’ Pension” should be gradually raised to 65 years old.

The schedule for raising pensionable ages is as follows.



2) Standard amount of pension benefit (in the 2009 fiscal year)

(The Old-Age Basic Pension)

$$792,100 \text{ yen} \times \frac{(\text{Number of months for which premium was paid}) + (\text{Number of months for which premium was exempted}) \text{ after Apr. 2009} \times \frac{1}{2} + (\text{Number of months for which } \frac{3}{4} \text{ of premium was exempted} \times \frac{5}{8}) + (\text{Number of months for which } \frac{1}{2} \text{ of premium was exempted} \times \frac{3}{4}) + (\text{Number of months for which } \frac{1}{4} \text{ of premium was exempted} \times \frac{7}{8}) + ((\text{Number of months for which premium was exempted}) \text{ before Mar. 2009}) \times \frac{1}{3} + (\text{Number of months for which } \frac{3}{4} \text{ of premium was exempted} \times \frac{1}{2}) + (\text{Number of months for which } \frac{1}{2} \text{ of premium was exempted} \times \frac{2}{3}) + (\text{Number of months for which } \frac{1}{4} \text{ of premium was exempted} \times \frac{5}{6})}{40 \text{ (the maximum participation year)} \times 12}$$

(The Old-Age Employees' Pension)

- The amount of the Old-Age Employees' Pension benefit for the insured persons aged between 60 and 64

The fixed-portion ① + the remuneration-based portion ② + added pension ③

① The fixed-portion

Date of birth based unit amount × insured period × Price Index

② The remuneration-based portion

Average Standard Monthly Remuneration × Birthday's multiplication rate × insured period × Price Index

③ Amount of added pension (monthly)

Wife, the first and the second children of the insured: 18,992 yen per person

The third and subsequent children: 6,325 yen per person

("Children" means those who are children until the end of the fiscal year to which their 18 years old birthdays belong or the persons with disability degree I or II under 20 years old.)

- \* For those aged between 60 and 64 who are working, all or part of his/her pension benefits are cut according to his or her remuneration level as follows (monthly):

- i) Until the total amount of the monthly wage (including bonus; hereinafter the same) reaches 280,000 yen, the pension benefit of the insured is provided in full.
- ii) When the said total amount exceeds 280,000 yen, 1 of the benefit is decreased as against an increase in 2 of his or her wage before the amount of his or her wage becomes 480,000 yen.
- iii) When his or her wage exceeds 480,000 yen, the benefit amount equals to the increased amount of wage is stopped to be provided.

- The amount of the Old-Age Employees' pension benefit after 65 years of age:

The total amount of above-mentioned ② and ③.

Workers aged 65 and over shall be required to pay the premium as insured persons of the Employees' Pension Insurance. For persons whose total amount of wage and Employees' Pension Insurance benefit (the remuneration-based portion) exceeds 480,000 yen, adjustment



of 1 of the Employees' Pension Insurance (the remuneration-based portion) benefit against 2 of the wage increase is made (Old-Age Pension for Active Workers system).

(Note) The full amount of the Old-Age Basic Pension benefit should be paid. Application of the Old-Age Pension for Active Workers system to persons 70 years old and over will start in April 2009.

Simplified examples of households where all of husbands and wives are of 65 years and over are shown below (monthly):

(Example A)

Full-time housewife and her husband who was the insured person of the Employees' Pension Insurance (the benefit is 233,000 yen.)

(Example B)

Husband and wife who were both the insured persons of the Employees' Pension Insurance (the benefit is 296,000 yen)

(Example C)

Husband and wife who were both the insured persons of the National Pension only (for example, households of self-employed persons, etc.) (the benefit is 133,000 yen)

|  |  |  |
|--|--|--|
| <p>Employees' Pension Insurance (of husband)<br/>Proportional calculation is made using the average earnings and the insured period (the benefit is 101,000 yen. On the assumption that he was earning Men's Spendable Total Remuneration (converted to monthly amounts: 393,000 yen), and insured for 40 years)</p> | <p>Employees' Pension Insurance (of wife)<br/>Proportional calculation is made using the average earnings and the insured period (the benefit is 63,000 yen on the assumption that she was earning Women's Spendable Total Remuneration (converted to monthly amounts: 244,000 yen), and was insured for 40 years)</p> |  |
| <p>Basic Pension (of husband)<br/>Approximately 66,000 yen on the assumption that he was insured for 40 years.</p>   | <p>Employees' Pension Insurance (of husband)<br/>Proportional calculation is made using the average earnings and the insured period (the benefit is 101,000 yen on the assumption that he was earning Men's Spendable Total Remuneration (converted to monthly amounts: 393,000 yen), and insured for 40 years)</p>    |  |
| <p>Basic Pension (of wife)<br/>Approximately 66,000 yen on the assumption that she was insured for 40 years.</p>   | <p>Basic Pension (of husband)<br/>Approximately 66,000 yen on the assumption that he was insured for 40 years.</p>   | <p>Basic Pension (of husband)<br/>Approximately 66,000 yen on the assumption that he was insured for 40 years.</p> |
|  | <p>Basic Pension (of wife)<br/>Approximately 66,000 yen on the assumption that she was insured for 40 years.</p>   | <p>Basic Pension (of wife)<br/>Approximately 66,000 yen on the assumption that she was insured for 40 years.</p>   |

\* Benefit amounts shown are for the fiscal year 2004.

## (2) The Disability Pension

### 1) Qualifying conditions for the pension benefit

- When the insured person comes to have any disability due to disease or injury when he/she is covered of any of the public pension system.
- When the insured persons is not a defaulter of the Scheme's premium for the period equal to one-third of his/her insured period before he/she has become disabled in principal.

### 2) Standard amount of pension benefit

#### (Disability Basic Pension)

- Disability Grade 1 (those who have any severe disability on both hands, those who are completely blind, etc.)

The amount of pension benefit equals to that for the Disability Grade 2 benefit under the Disability Basic Pension multiplied by 1.25 (in the 2009 fiscal year, 82,508 yen per month).

Additional amounts:

The 1st and the 2nd children                      18,992 yen per person

The 3rd and subsequent children              6,325 yen per person

("Children" means those who are children until the end of the fiscal year to which their 18 years-old birthdays belong or the persons with any Disability Grade 1 or 2 under 20 years old.)

- Disability Grade 2 (those who have any severe disability on either hand, etc.)

The amount of pension benefit equals to the full amount paid under the Old-Age Basic Pension (in the 2009 fiscal year, 66,008 yen per month).

Additional amounts:

The 1st and the 2nd children                      18,992 yen per person

The 3rd and subsequent children              6,325 yen per person

("Children" means those who are children until the end of the fiscal year to which their 18 years-old birthdays belong or the persons with any Disability Grade 1 or 2 under 20 years old.)

(Disability Employees' Pension)

- The amount of pension benefit for those with Disability Grade 1 equals to that for the Grade 2 disability pension benefit multiplied by 1.25.
- The amount of pension benefit for those with Disability Grade 2:  
Similar to the Old-Age Employees' Pension, the average amount of his/her earnings while he/she was insured and his/her insured period are based upon for the calculation (when the insured period is less than 25 years (or 300 months), the calculation is made on the assumption that he/she was insured for 25 years.)
- Under the Disability Employee's Pension for Grade 1 and 2, 18,992 yen is added to the above-mentioned benefit when his wife is making a livelihood together.
- The amount of pension benefit for those with Disability Grade 3:  
For this, the same formula used to calculate the benefit amount for those with Disability Grade 2 under the Disability Pension, provided that no added payments is granted even if he or she has spouse. The minimum guaranteed amount is 49,516 yen.
- In addition, there is the Disability Allowance (a lump-sum) to cover those with less severe disability.

### **(3) The Survivors' Pension**

#### 1) Qualifying conditions for the pension benefit

- When any pension recipients or insured persons (members) of a pension system who supported the survivor's livelihood died, the benefit is provided to the survivor.

##### (Survivors' Basic Pension)

Wife having child(ren) or to child(ren) of the beneficiary or the insured person.

("Children" means those who are children until the end of the fiscal year to which their 18 years old birthdays belong or the persons with Disability Grade 1 or 2 under 20 years old.)

##### (Survivors' Employees' Pension)

- ① Spouse or child(ren) of the beneficiary or the insured person
- ② Parents of the beneficiary or the insured person (when he or she had no spouse and child(ren))
- ③ Grandchild(ren) (when he/she had no spouse, child and parents)
- ④ Grandparents (when he/she had no spouse, child, parents and grandchild (ren))

("Children and grandchildren" means those who are children and grand children until the end of the fiscal year to which their 18 years old birthdays belong or the persons with Disability Grade 1 or 2 under 20 years old. In the cases that the survivor is husband, parents and/or grandparents, the benefit is provided after survivor becomes 60 years old, subject to the condition that the insured person died 55 years old or older.)

- Similar to the Disability Pension, the benefit is provided when the dead insured person is not a defaulter of the Scheme's premium for the period equal to one-third of his/her insured period.

#### 2) Standard amount of pension benefit

##### (Survivors' Basic Pension)

The amount of pension benefit equals to the full amount paid under the Old-Age Basic Pension (in the 2009 fiscal year, 66,008 yen per month).

##### (Survivors' Employees' Pension)

- The amount of pension benefit equals to three-fourths of the dead insured person's benefit amount under the Old-Age Employees' Pension System at the time of his/her death.
- When the insured period of the dead insured person is less than 25 years (or 300 months) at the time of his/her death, the calculation is made on the assumption that he/she was insured for 25 years.

**(4) Adjustment of Duplication (the principle of “one person, one Basic Pension”)**

A beneficiary has to select one of the three kinds of the Basic Pension, even if he/she is eligible for two or more thereof.

With regard to the three kinds of the Employees’ Pension, the insured have to select one that has basically the similar reason for the provision to that for the Basic Pension, because they are considered supplementary benefit to the Basic Pension.

- Duplication of the Disability Basic Pension and the Old-Age Employees’ Pension

At present, measures are taken to establish an environment in which persons with disability can work with their abilities. To help working persons with disabilities improve their economic bases and live by themselves in local communities, the pension system has been changed. As a result, it has become possible to simultaneously provide benefits of the Disability Basic Pension and the Old-Age Employees’ Pension, or benefits of the Disability Basic Pension and the Survivors’ Employees’ Pension.

| Employees’ Pension<br>National Pension | Old-Age Employees’ Pension | Disability Employees’ Pension | Survivors’ Employees’ Pension |
|--|----------------------------|-------------------------------|-------------------------------|
| Old-Age Basic Pension                  | ○                          | ×                             | ○                             |
| Disability Basic Pension               | ◎                          | ○                             | ◎                             |
| Survivors’ Basic Pension               | ×                          | ×                             | ○                             |

(Note)

- : Even before the revision of the pension system, simultaneous provision of these benefits was possible.
- ◎ : The simultaneous provision of these benefits has become possible due to the current revision of the pension system.
- × : The simultaneous provision of these benefits is prohibited.

## Formula for Pension Benefits Calculation by the 2004 Revision (Macro-Economy Indexation Applied)

○ Basic Pension

$$780,900 \times \boxed{\text{Revision rate}} \times \frac{\text{Number of months when premiums were paid}}{480 \text{ months (40 years)}}$$

○ Employees' Pension (Remuneration-based portion)

$$\boxed{\text{Average monthly salary}} \times 5.481/1000 \times \text{Number of enrollment years}$$

Average monthly salary: The amount of the past remuneration including bonuses re-evaluated to the present value by multiplying it with the revaluation rate.

**Revision rate/Revaluation rate**

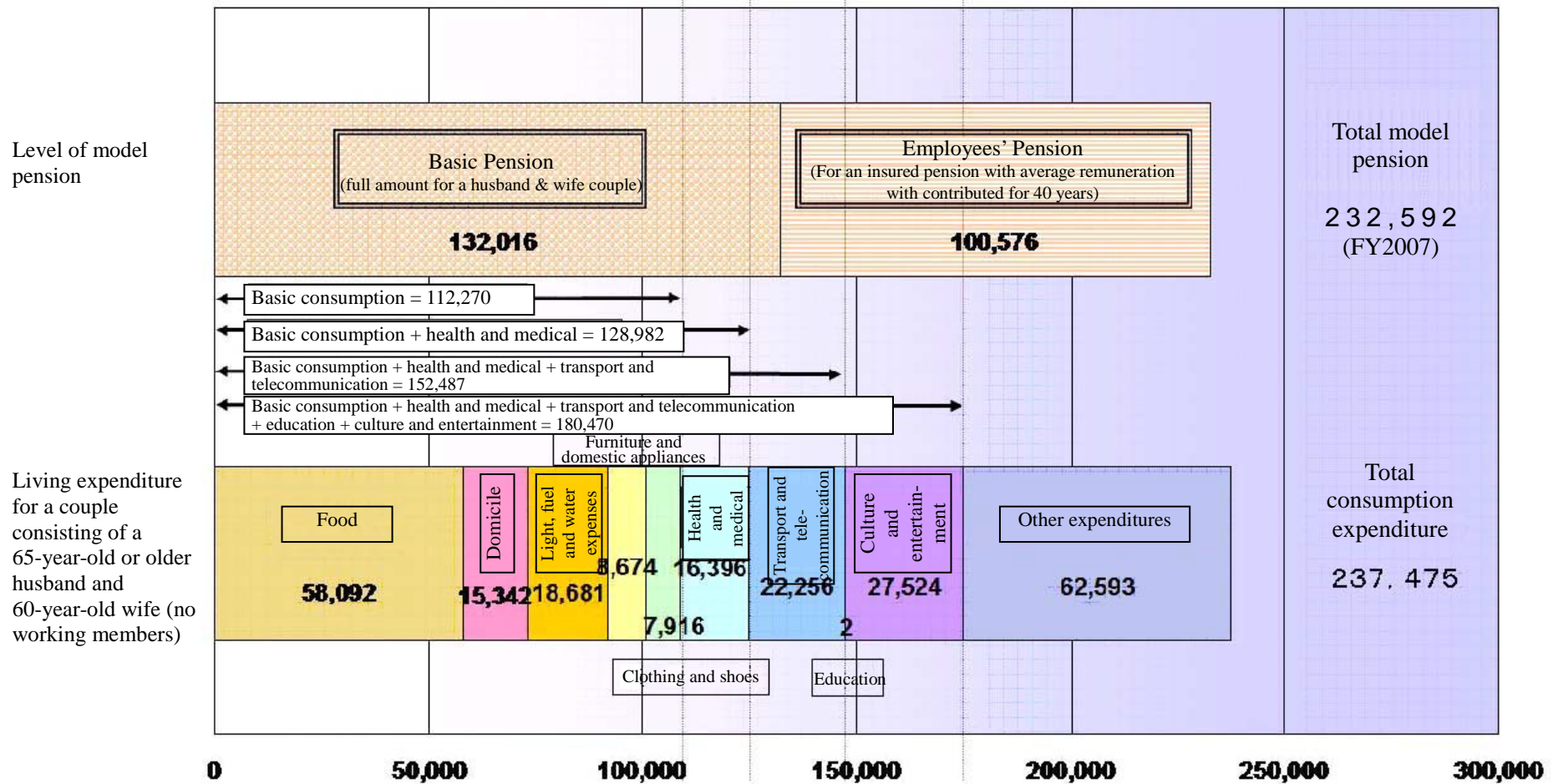
(New beneficiaries)  
 Revision rate of the previous year (Revaluation rate)  
 × Growth ratio of take-home pay (3-year average) × Adjustment rate\*

(Existing beneficiaries)  
 Revision rate of the previous year (Revaluation rate) × Price index × Adjustment rate\*

\*Adjustment rate =  
 Decrease ratio in the number of people insured by public pensions (3-year average)  
 × Fixed rate to account for the increase in life expectancy (0.997)

## Living Cost of Elderly Households and Benefit Levels of Basic Pension

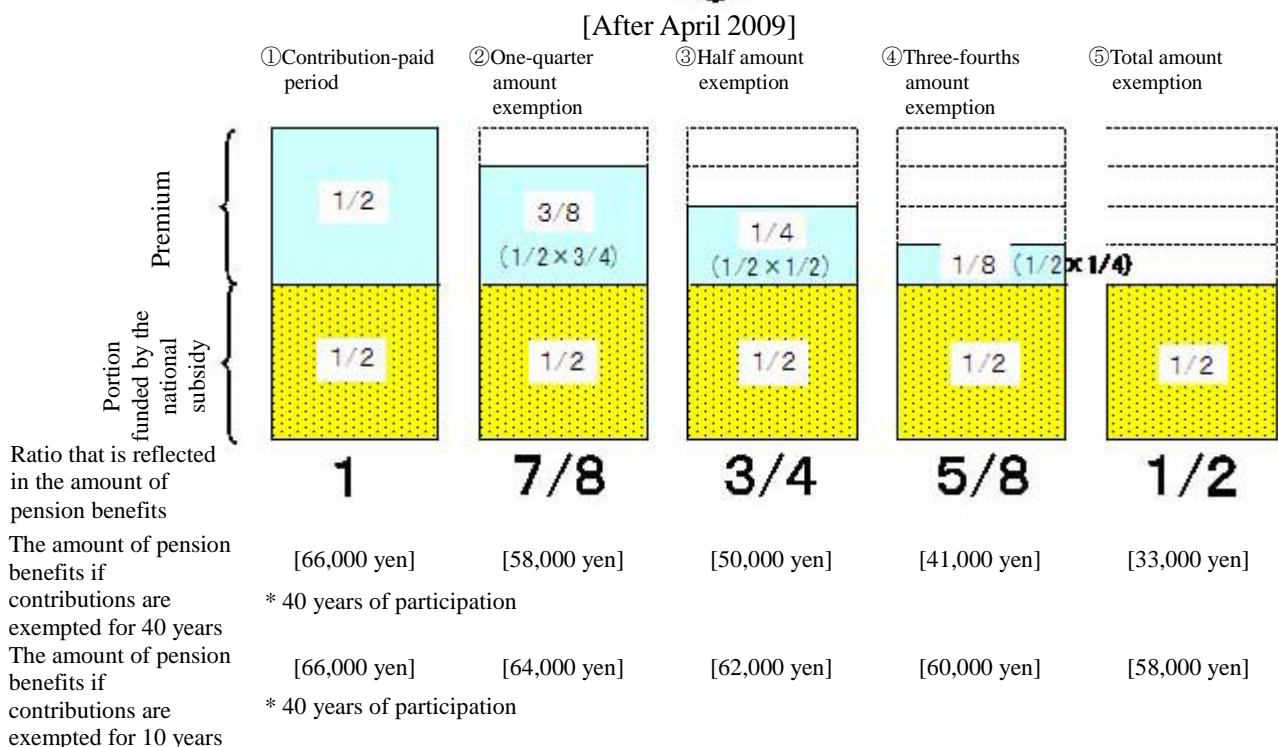
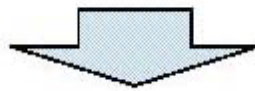
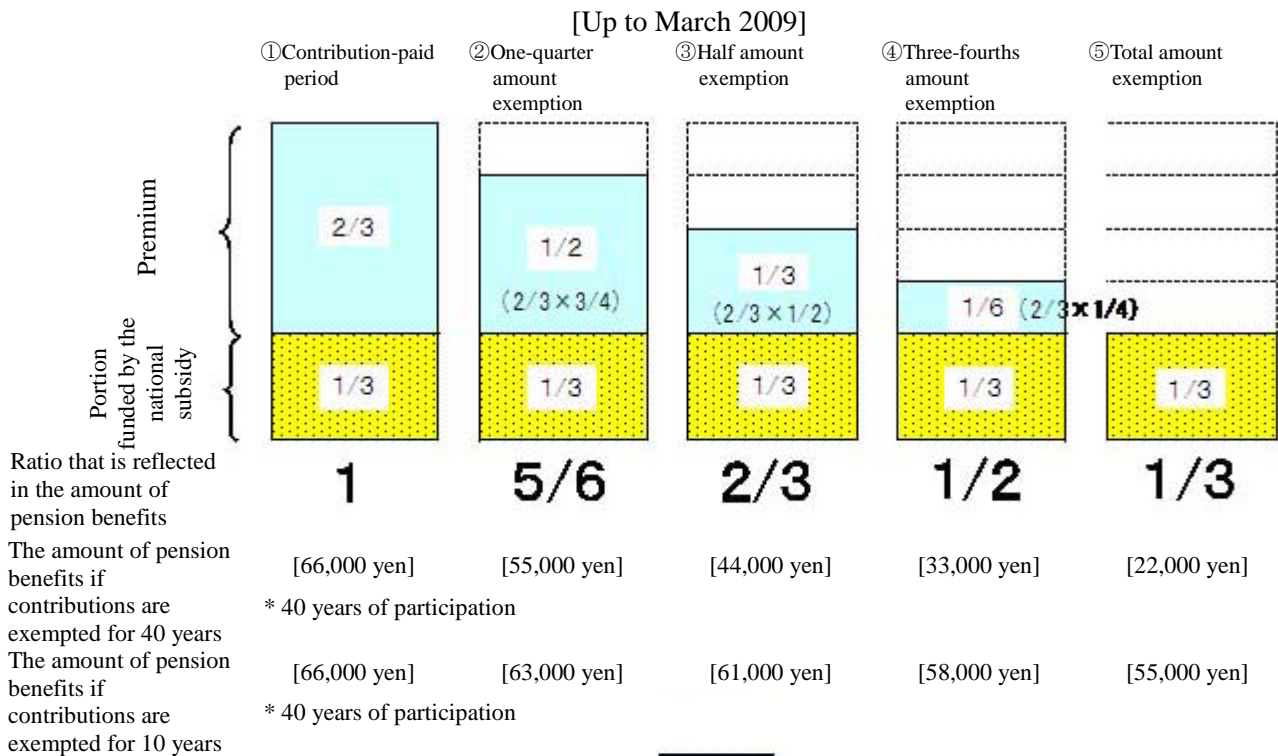
○ When the Basic Pension level of a husband and wife is compared with the living costs of an elderly husband and wife couple (no working members), the Basic Pension can cover the basic part of elderly life, including food, clothing, and shelter.



Source: Annual Report on Household Budget Survey for FY2007 (Statistic Bureau, Ministry of Internal Affairs and Communications)

## Improving Pension Benefits for Those Who Have a Contribution-Exempted Period (changes in the calculation method for the amount of their pension benefits)

- The amount of pension benefits for people who have a contribution-exempted period will be calculated, taking into consideration the total amount of premium that they have paid as well as the portion funded by the national subsidy.
- According to the law, the proportion in the Basic Pension funded by the national subsidy was raised to 1/2. Based on this, the calculation method for pension benefits was changed and the new calculation will be applied to the provision of benefits for people who have a contribution-exempted period later than April 2009.





## **Chapter 4 Public Pension System Issues**

### **Overview of the Pension System Reforms** **(Act of Partial Revision of the National Pension Act, etc.)**

#### **The National Pension and the Employees' Pension**

### **I. Basic Concept for Reform**

#### **1. Building a sustainable system matched with socio-economy and ensuring reliability for the system**

- Preventing future working generations from excessive burdens and ensuring appropriate benefit levels of pension for elderly people
- Building a sustainable system that can flexibly match with socio-economic fluctuations and that does not need frequent institutional reforms

#### **2. Building a system that matches with diverse patterns of life and work**

- A new system needs a flexible institutional mechanism which allows diverse patterns of life and work and which assesses diverse patterns of working contribution to the pension system.

### **II. Prospects for Benefits and Burdens**

#### **1. Raising the national subsidy of the basic pension**

- In principle, the national subsidy proportion of the basic pension is raised to 1/2. (The raise begins in fiscal 2004, which will continue into an appropriate level in fiscal 2005 and 2006, and will complete in fiscal 2009. The necessary provisions are defined in supplementary regulations.)

#### **2. Enforcing financial verification**

- The current condition of pension finance and its 100-year-long financial balance period will be verified at least once every five years.

### **3. Introducing the premium level fixed system**

(Introduction of the premium level fixed system)

- The fixed system will have a mechanism that automatically adjusts benefit levels within the revenue from premiums after future premium levels for the Employees' Pension and the National Pension are fixed.

(Premium for the Employees' Pension)

- The premium rate for the Employees' Pension is raised by 0.354% every year from October 2004, which will be set to 18.30% in fiscal 2017 and onward.

(Premium of the National Pension)

- The monthly premium for the National Pension is raised by ¥280 (value for fiscal 2004) every year from April 2005, which will be fixed at ¥16,900 (value for fiscal 2004) in fiscal 2017 and onward.

(Introduction of macro-economic indexation)

- The growth of the entire social premium bearing capacities is reflected in the pension revision rate to adjust benefit levels (macro-economic indexation). (However, the lower limit is adjusted up to the nominal amount, which remains fixed.)

[Macro-economic indexation]

- Revision rate of new beneficiaries: Growth rate of after-tax income - Indexation adjustment rate
- Revision rate of existing beneficiaries: Growth rate of prices - Indexation adjustment rate
  - \* Indexation adjustment rate: Decrease in the number of insured persons of the entire public pension + Fixed rate after the growth rate of the average pension benefit period (average life expectancy) is considered
- The benefit level for a household of the standard Employees' Pension (including the basic pension of a husband & wife couple) will exceed at least 50% of the average income of working generations.

### **III. Introducing Systems That Meet with Diverse Patterns of Life and Work**

#### **1. Reviewing the old-age pension system for active workers**

- Concerning the old-age pension system for insured employees in their early 60s, the 20% benefit suspension during the working period is discontinued.
- Concerning Employees' Pension benefit of insured employees aged 70 years old or older, when the total of bonuses and the Old-Age Employees' Pension exceeds the average income of working male insured employees, like the insured employees in their late 60s, the benefit of all or part of the Old-Age Employees' Pension is discontinued. (But no insurance premium is required.)
- The benefit of the Old-Age Employees' Pension for persons aged 65 or older is postponed.

#### **2. Expanding the application of Employees' Pension to part-time workers**

- To meet with increasing working patterns, the revised pension system will be reviewed after five years of enforcement, and necessary measures will be taken accordingly. The review will be made to reinforce the pension security of insured employees and to promote fair burdens among corporations while socio-economic conditions, impacts on employment and on corporations for which many part-time workers work are taken into consideration. The revised pension system will have a mechanism neutral to corporations and employment patterns of insured employees as much as possible.

#### **3. Boosting next-generation fosterage support measures**

- Until a baby grows to three years old,
  - ① Premiums are exempted during the child-care leave period.
  - ② When the standard remuneration is lowered due to a shorter working period, a measure is taken to maintain the amount of future pension based on the standard remuneration before the decrease.

#### **4. Women and pension**

- (1) Division of the Employees' Pension for the period of Category-3 insured person
  - The premiums borne by an insured person who has a dependent spouse are basically regarded as though the insured person and the dependent spouse had jointly borne the premiums.
  - For the period of Category-3 insured person (period after introduction), when No. 3 insured person divorces the spouse or when a situation takes place that requires the division of pension according to an ordinance of the Ministry of Health, Labour and Welfare, the Employees' Pension (in the premium contribution record) of the spouse may be divided into half.
- (2) Division of the Employees' Pension upon divorce
  - The Employees' Pension of a divorced couple may be divided when the divorced spouse agrees to do so or when the court decides to do so (up to half of the pension in the premium contribution record for the period of marriage).
- (3) Reviewing the Survivors' Pension system
  - A mechanism will be introduced so that the difference between the existing survivors' benefits and the Employees' Pension benefits is provided as Survivors' Employees' Pension, in addition to the full benefit of Old-Age Employees' Pension.
  - Providing the Survivors' Employees' Pension is limited to five years for the surviving spouse of less than 30 years old with no children. The target for providing extra benefits for a middle- and old-age widow is applied to a widow who was 40 years old or older when her husband died.

#### **5. Improving the Disability Pension**

- The Disability Basic Pension and the Old-age Employees' Pension or the Survivors' Employees' Pension may be provided concurrently.

## **IV. Other Revised Points**

### **1. Reinforcing measures to collect premiums for the National Pension**

- Institutional measures are introduced to collect premiums for the National Pension, including the enforcement of a multiple-stage exemption system according to income, contribution moratorium for youth who are facing difficulty for employment opportunity, easy access to necessary income information from municipalities, and other measures.

### **2. Working on the promotion for the understanding of the pension system**

- Individual pension information, such as premium contribution record and the amount of pension to be provided in the future, is reported to insured persons periodically.

### **3. Special notification measure for Category-3 insured persons**

- The revised pension system allows Category-3 insured persons in the past to notify the component authorities about their non-reporting periods. The period to notify shall fall into the period that insured persons already contributed premiums.

### **4. Canceling the price indexation special measure (1.7% portion)**

- The price indexation special measure (1.7% portion) for the past three years will be cancelled under rising price circumstances after fiscal 2005.

### **5. Revising the special measure pension of the former Mutual Aid Associations of Agriculture, Forestry and Fishery Corporation Personnel**

- The special measure pension of the former Mutual Aid Associations of Agriculture, Forestry and Fishery Corporation Personnel will be revised so that the pension system reflects falling price conditions in the amount of pension.

## People

- Public pension plan holders (as of the end of FY2007):

70,070,000

National Pension Plan – No.1 insured persons:  
20,350,000

National Pension Plan – No.2 insured persons, etc.:  
39,080,000

National Pension Plan – No.3 insured persons:  
10,630,000

\* The “No.2 insured persons etc.” refers to persons insured by the employed workers’ pension, which include, in addition to the second category persons insured, persons who are aged 65 or older and have the vested right to pension payment due to aging or retirement.

- Beneficiaries (as of the end of FY2007)  
34,800,000 (one out of every four people)

- Basic pension (after paying premium for 40 years)

Monthly payment: 66,008 yen

- Employees’ pension (standard payment for a married couple)

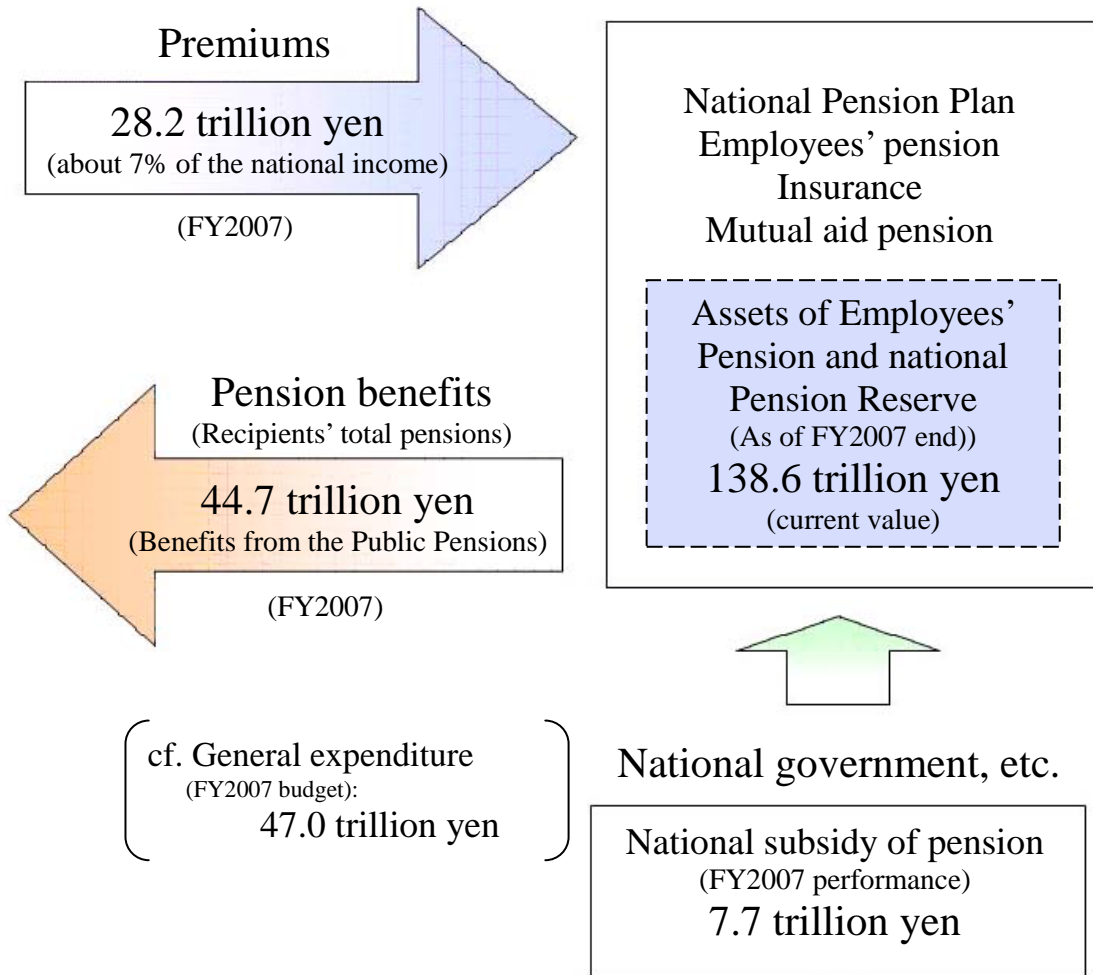
Monthly payment: 232,592 yen

(FY2009)

- Public pension makes up approx. 70% of aged population’s household income  
Proportion of public pension in the aged population’s household income (2,989,000 yen):  
70.8% (2,116,000 yen)

(National Livelihood Survey 2008)

## Pension System



# Reviewing Benefits and Contributions in the Revised Pension System for Fiscal 2004

## Benefit level

(Employees' Pension (including the basic pension for the husband & wife))

The standard pension benefit level of a recipient at age 65 will exceed 50% of the average income of an employee household despite the falling birth rate in the future.

**FY 2023 and onward: 50.2%**

Present 59.3% will gradually fall as the working population decrease. However, the amount of pension will remain as it is.

The amount of pension (nominal amount) after a person begins to receive the pension will increase as prices increase. Usually, since the wage increase rate is higher than the price increase rate, the ratio of pension to the income of working people will decrease.

Reference: Present pension payments (as of FY2009): Basic pension (after paying premium for 40 years): monthly payment: 66,008 yen; Employees' pension (standard payment for a married couple): monthly payment: 232,592 yen

## Premium contribution

(Employees' Pension, National Pension)

**Present:** Employees' Pension: 13.58%  
(insured person: 6.79%)  
National Pension: ¥13,300

### (Employees' Pension)

- In and after October 2004, the premium contribution will be raised by 0.354% every year. (insured person: 0.177%)
  - \* Average worker (¥360,000 of monthly salary and bonuses for 3.6 months of monthly salary)
    - Monthly: ¥650
    - Per bonus: ¥1,150 (twice a year)

### (National Pension)

- Monthly premium contribution will be raised by ¥280 in and after April 2005 (value for fiscal 2004).

### Fiscal 2017 and onward

**Employees' Pension: 18.30%**  
(employer: 9.15%)

**National Pension: ¥16,900**  
(value in fiscal 2004\*)

\* "value for fiscal 2004" represents a value based on the wage level for fiscal 2004. The amount of actual premiums to pay is calculated based on the value for fiscal 2004 multiplied by the wage increase rate until the calculation is made. Accordingly, the amount will vary depending on wage increases in the future.

Reference: Present premium rates (as of September 2009): Employees' pension: 15.704%, National Pension Plan: 14,660 yen

## Raising the national subsidy ratio for the basic pension and the course

### Fiscal 2004: Working on

Fund source: Reviewing pension tax (reviewing public pension deduction, discontinuing elderly deduction, etc.)

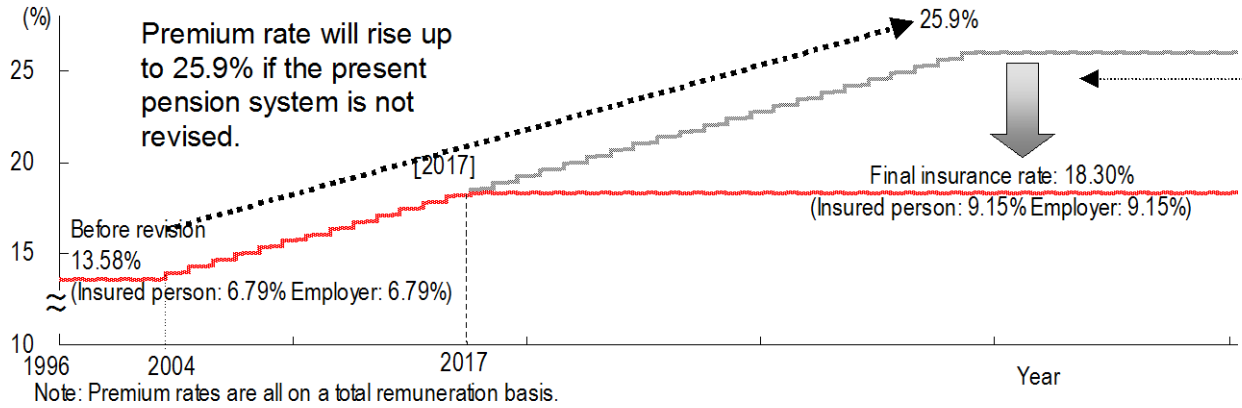
Of the increasing revenue of ¥240 billion, about 160 billion will be appropriated to the basic pension which does not include the portion of local allocation tax. (11/1000)

### Raising contributions to an appropriate level in fiscal 2005 and 2006

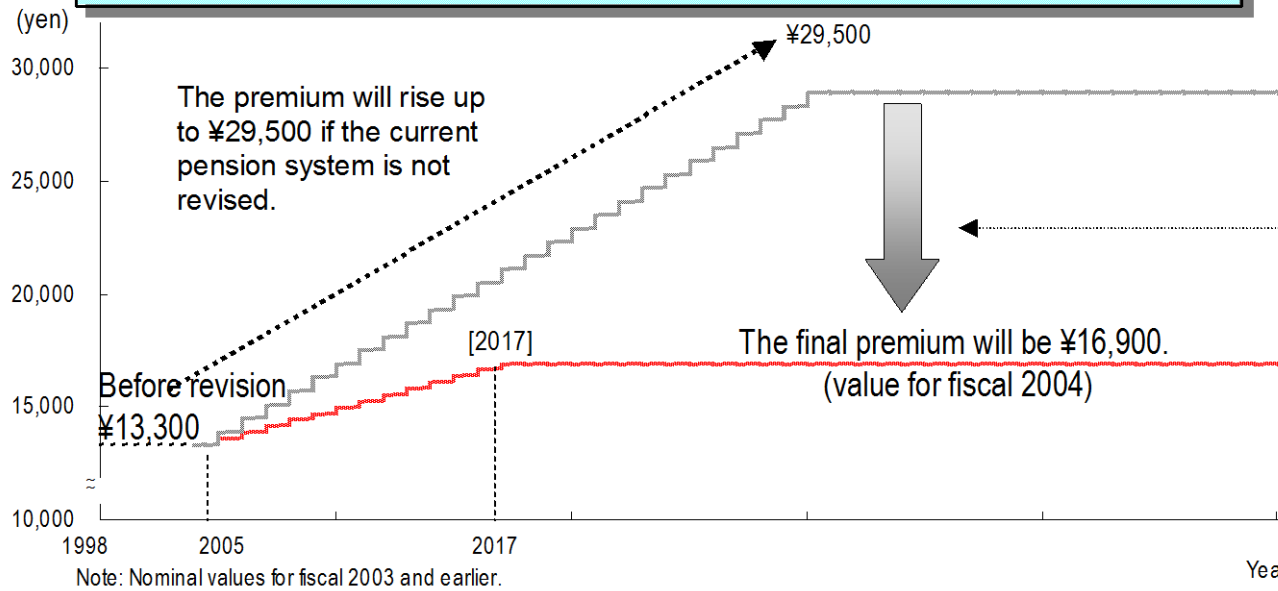
- In fiscal 2005, 110.1 billion yen of revenue increase from reduction of the fixed-rate tax reduction to 1/2 is appropriated to the basic pension.
- In fiscal 2006, the national subsidy rate was raised to 1/3 + 32/1000, in light of the reduction and abolition of the fixed-rate tax reduction.
- In fiscal 2007, the national subsidy rate was raised to 1/3 + 32/1000, in light of the reduction and abolition of the fixed-rate tax reduction.

### Completing to raise national subsidy to 1/2 by FY 2009

### Premium rates of Employees' Pension



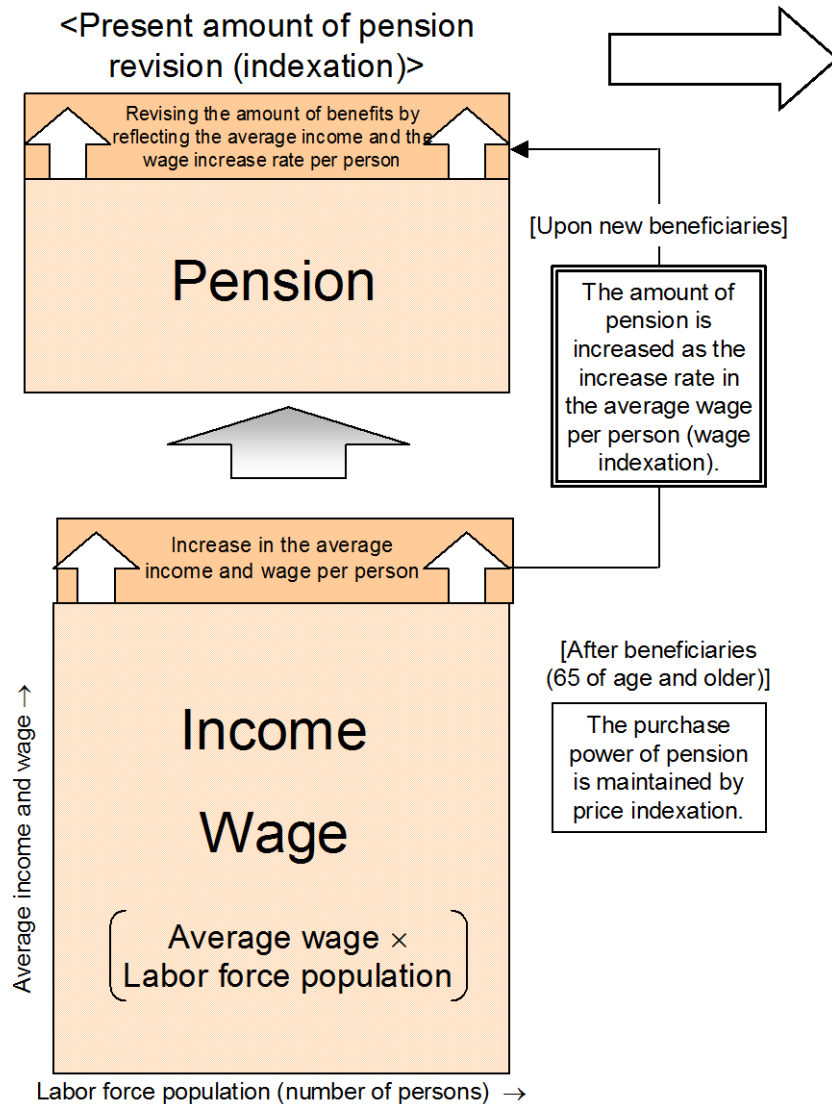
### Premium rates of National Pension



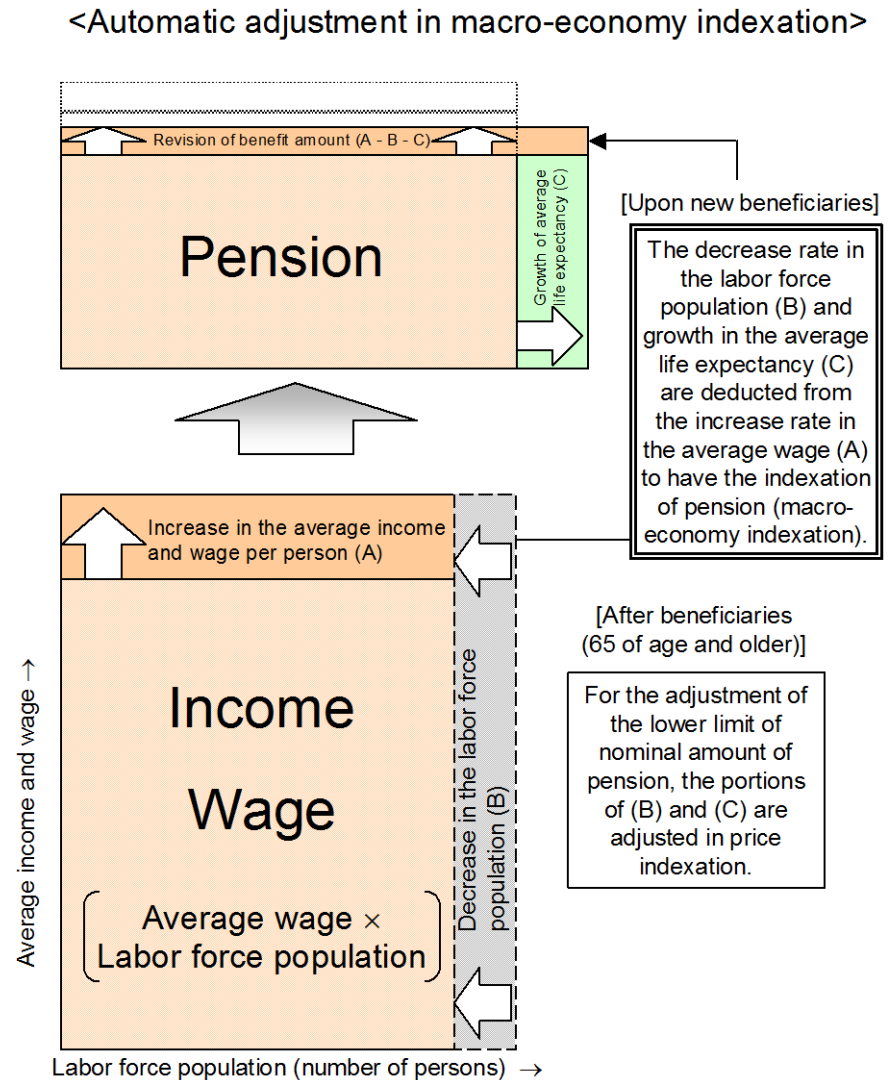
**The rise in premium will be suppressed as much as possible** by reviewing rises in the national subsidy ratio, planned fund utilization of reserve, and benefit levels.

\* "value for fiscal 2004" represents a value based on the wage level for fiscal 2004. The amount of actual premiums to pay is calculated based on the value for fiscal 2004 multiplied by the wage increase rate until the calculation is made. Accordingly, the amount will vary depending on wage increases in the future.





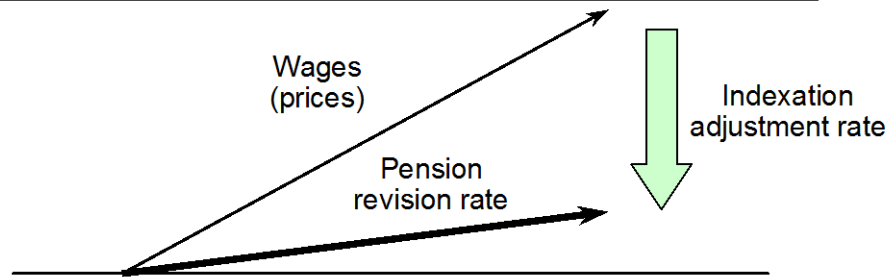
○ The force to sustain the pension system (on a premium levy basis) is based on the incomes and wages that society produces through production activities.



○ Amid the falling labor force population, incomes and wages of the entire society, which is also the power to sustain the pension system (on a premium levy basis), do not increase even if the average wage increases.

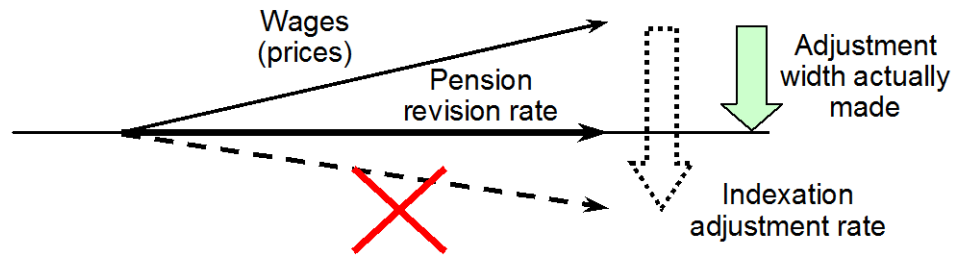


In case wages (prices) rose on some level



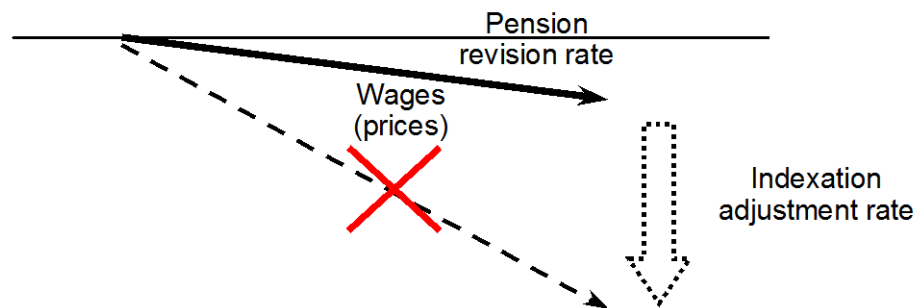
Wage (prices) increase rate  $\geq$   
Indexation adjustment rate  
 $\Rightarrow$  Carry out the adjustment of  
indexation.

In case wages (prices) rose slightly



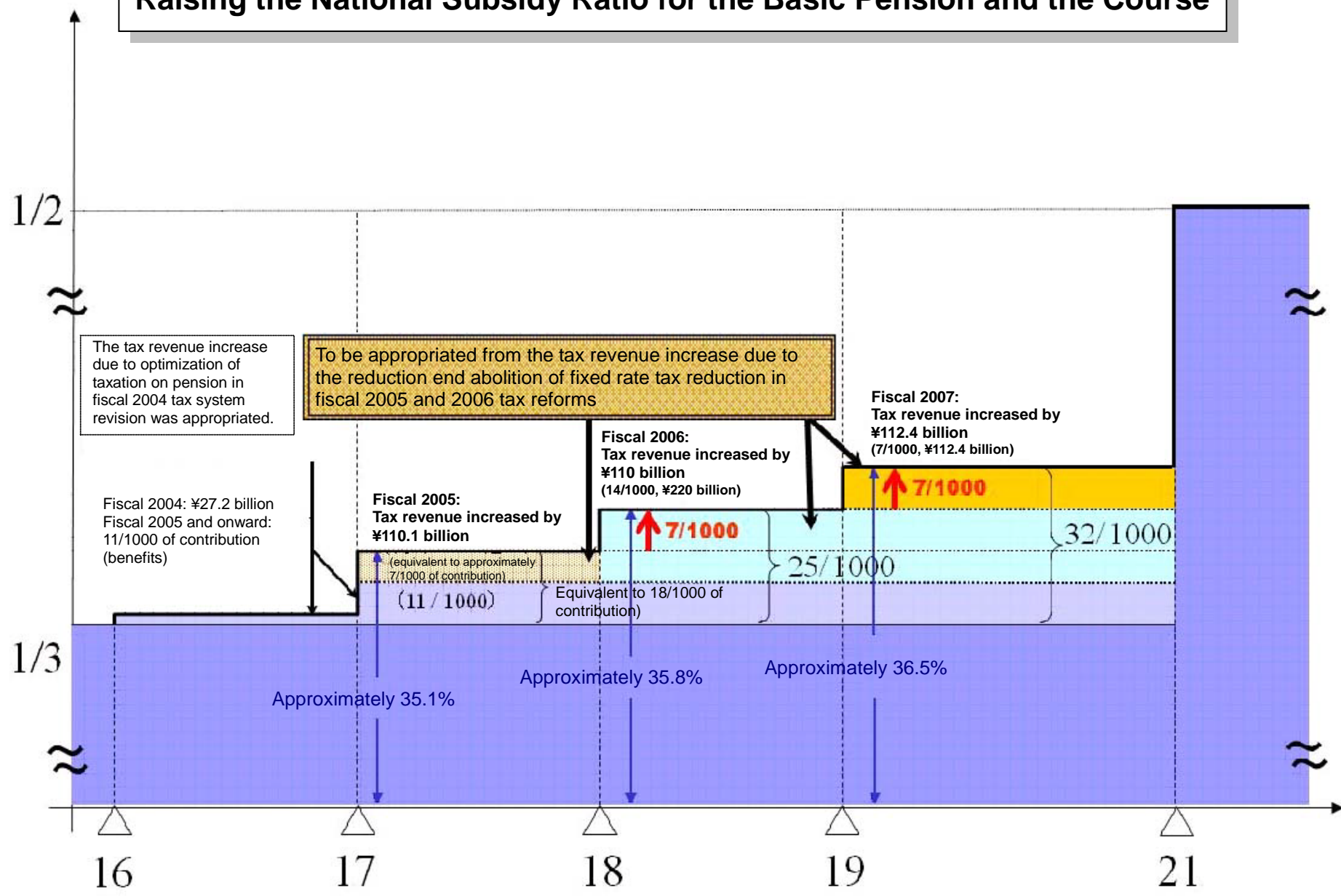
Wage (prices) increase rate  $<$   
Indexation adjustment rate  
 $\Rightarrow$  Carry out the adjustment of  
indexation.  
(Pension revision rate does not  
become negative.)

In case wages (prices) fell



$\Rightarrow$  Carry out no indexation adjustment.

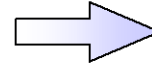
# Raising the National Subsidy Ratio for the Basic Pension and the Course



# Reviewing the System to Meet with Diverse Patterns of Life and Work

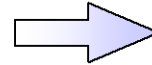
## [Review ①: Pension for working elderly]

I have heard that when a person in his early 60s begins to work, the pension he will receive decreases. The pension system makes elderly people have no desire to work.



20% of the pension benefit of working persons in their early 60s is cut until today. This cut will be discontinued.

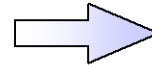
I have heard that a 70-year-old or older person can receive a large pension even when he earns a salary. Isn't that unfair?



If the total of pension proportional to remuneration and salary of a 70-year-old working person exceeds the average monthly income of working generations (¥480,000 including bonuses), the pension proportional to remuneration is adjusted (the basic pension is not reduced).

## [Review ②: Pension upon divorce]

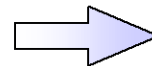
I worked for a short period and had a long time as a full-time housewife. After I divorced my husband, the amount of pension I can receive is very little.



The total of the old-age employees' pension during married life may be divided up in half when a divorced husband and wife agree to do so or when the court decides to do so.

## [Review ③: Pension for persons who raise children]

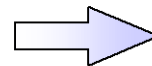
I think that a home raising children should have more support. Do you have measures to improve the situation in the pension system?



The revised pension system will promote a zero-waiting strategy for schools, upgrade children's allowances, reinforce measures against child abuse, and review the system of child-care leave. In addition, the revised pension system will expand the period of child-care leave for one-year old babies to three-year-old infants, during which premium contribution is exempted.

## [Review ④: Disability pension]

I have worked until I was 65 years old, though I am partly disabled. The amount of pension remains unchanged at the level of disability basic pension. Are the premiums that I contributed not reflected in my pension?



The revised pension system will take measures so that a disabled person who contributed premiums while working can receive both disability basic pension and old-age employees' pension.

# Old-Age Pension System for Active Workers after 60s

## 60 to 64 years old

Approx. 900,000 people, 0.2 trillion  
(Estimate value based on average year)

- In cases when the total amount of monthly wages (monthly income including bonuses) and a pension benefit, including the fixed portion (equivalent to the basic pension benefit of a person aged 65 or older), exceeds ¥280,000\*<sup>1</sup>, a certain amount of pension benefit is suspended by the proportion of 1 in the pension benefit against 2 in wage increase.
- In cases when the monthly wages exceeds ¥480,000\*<sup>2</sup>, the amount of the pension benefit is suspended by the same amount of the wage increase.
- \* According to the 2004 revision of the system, the scheme of 20% pension benefit suspension during the working period was abolished.

## 65 to 69 years old

Approx. 200,000 people, 0.2 trillion  
(Estimate value based on average year)

- **The full amount of the basic pension benefit will be paid.**
- In cases when the total amount of monthly wages (monthly income including bonuses) and the benefit from the Employee's Pension (the remuneration-based portion) **exceeds ¥480,000**\*<sup>2</sup>, a certain amount of pension benefit (the remuneration-based portion) is suspended by the proportion of 1 in the pension benefit against 2 in wage increase (introduced due to revision in 2002).

## Age 70 and older

Approx. 200,000 people, 0.2 trillion  
(Estimate value based on average year)

- The pension system after revision in 2004 treats 70-year-old or older persons the same as persons between 65 and 69 years old.  
(However, **no premiums are levied.**)
- \* Prior to the 2004 revision, full amount of pension benefit was paid.

○ **The impact of the system of benefit suspension during the working period on pension finance corresponds to about 0.7% in terms of final insurance rate.**

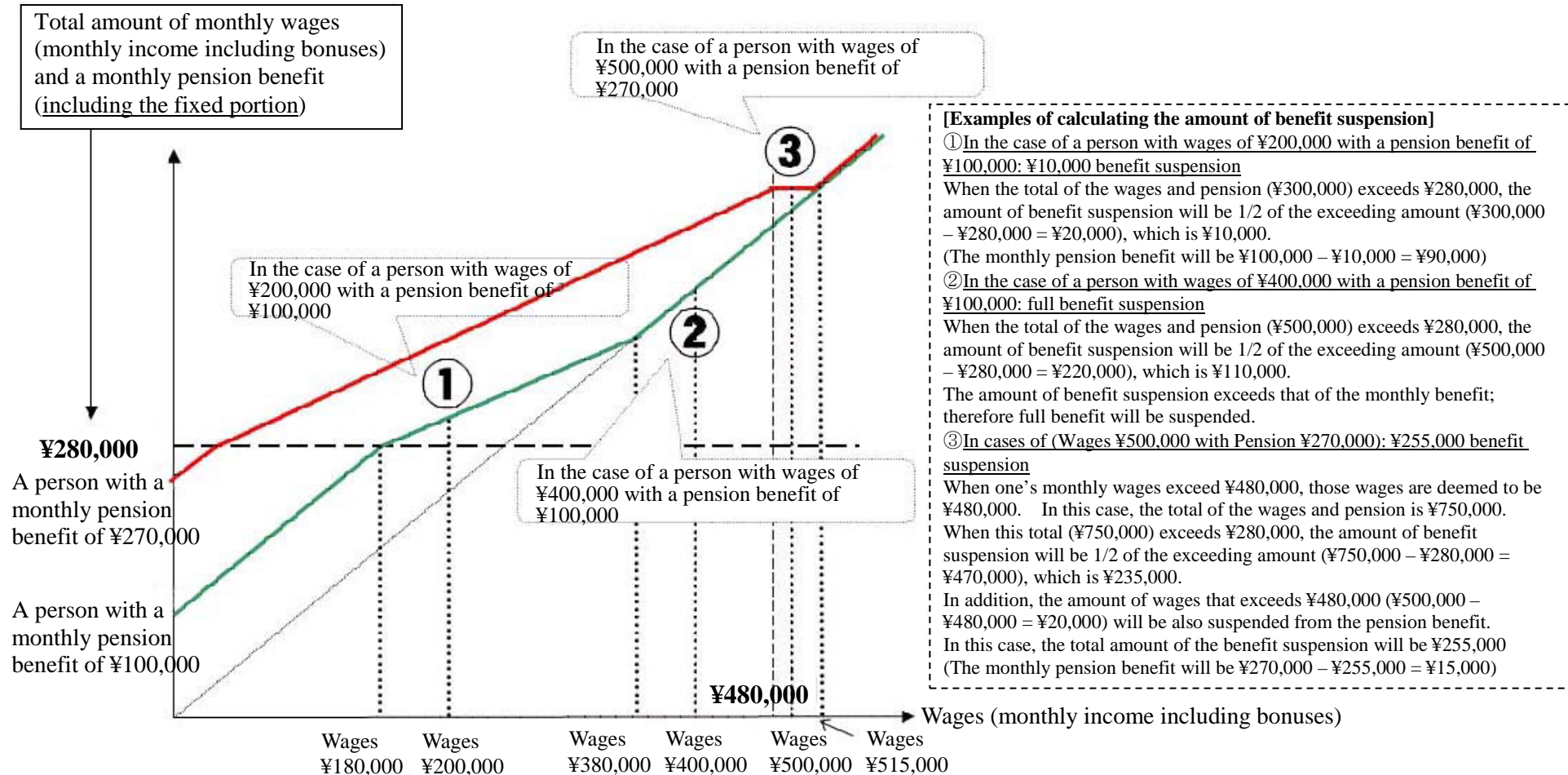
\*<sup>1</sup> Although the total was ¥220,000 (standard benefit level for a pension-receiving family (a married couple's basic pensions and the husband's employees' pension)) before the introduction of the total remuneration system, it increased to ¥280,000 when the system was introduced in April 2004 (based on the amount before the introduction multiplied by 1.3).

\*<sup>2</sup> Although the total was ¥370,000 (average wage for a working male insured employee) before the introduction of the total remuneration system, it increased to ¥480,000 when the system was introduced in April 2004 (based on the amount before the introduction multiplied by 1.3).



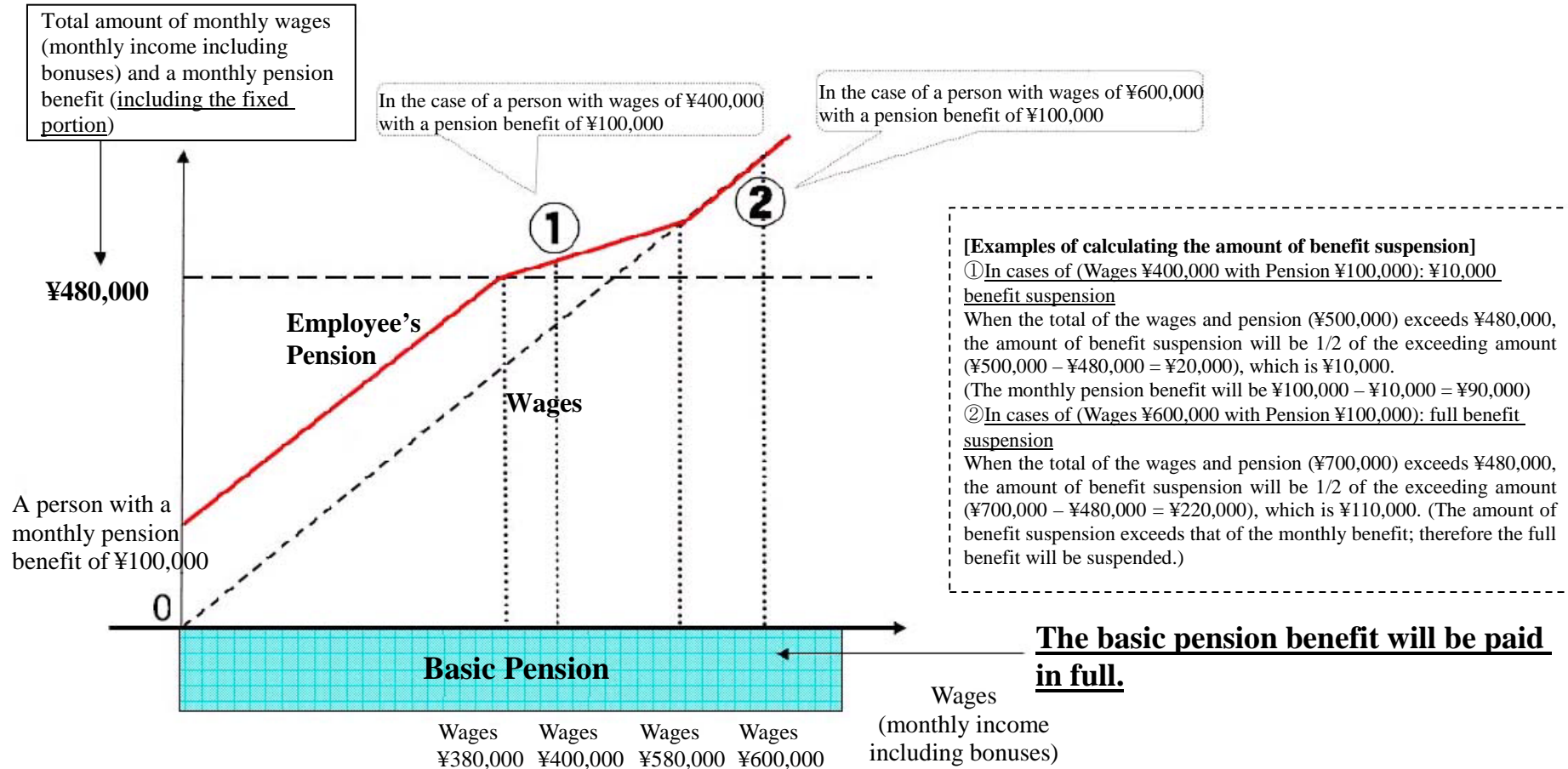
## The Old-Age Pension System for Active Workers Aged 60 – 64

- In cases when the total amount of monthly wages (monthly income including bonuses) and a pension benefit, including the fixed portion (equivalent to the basic pension benefit of a person aged 65 or older), exceeds ¥280,000, a certain amount of pension benefit is suspended by the proportion of 1 in the pension benefit against 2 in wage increase.
  - In cases when the monthly wages (monthly income including bonuses) exceeds ¥480,000, the amount of the pension benefit is suspended by the same amount of the wage increase.
- \* According to the 2004 revision of the system, the scheme of 20% pension benefit suspension during the working period was abolished.



## The Old-Age Pension System for Active Workers Aged 65 and over

- The full amount of the basic pension benefit will be paid.
- In cases when the total amount of monthly wages (monthly income including bonuses) and the benefit from the Employee's Pension (the remuneration-based portion) exceeds ¥480,000, a certain amount of pension benefit (the remuneration-based portion) is suspended by the proportion of 1 in the pension benefit against 2 in wage increase.



# Division of Employees' Pension upon Divorce

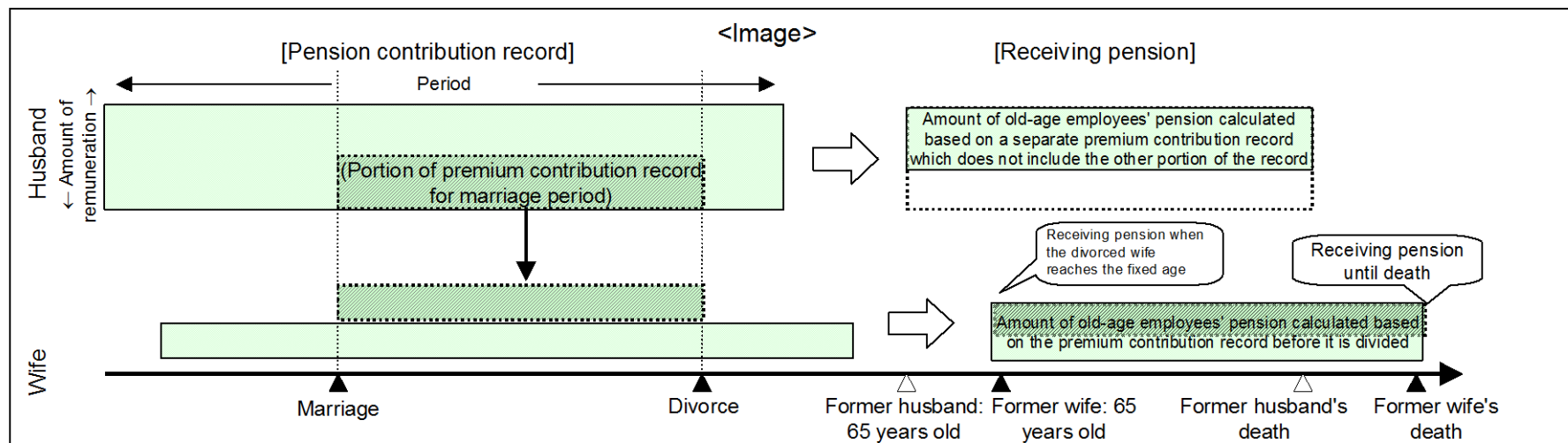
[From April 2007]

## Mechanism of dividing employees' pension upon divorce

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

## Effects of separation of the premium contribution record

- A person who obtained a separation of the premium contribution record may receive a pension according to his or her qualification for employee pension (such as old-age pension and disability pension).
  - No old-age employees' pension is provided until the insured person reaches a fixed elderly age.
  - Even when the divorced spouse who obtained a separate premium contribution record dies, the pension benefit of the other spouse is not affected.
- Division involves only the amount of the employees' pension (portion proportional to remuneration) and does not affect the basic pension.
- In principle, the separate premium contribution record is used as the basis to calculate the amount of employees' pension, but is not used for calculating the pensionable period, etc.



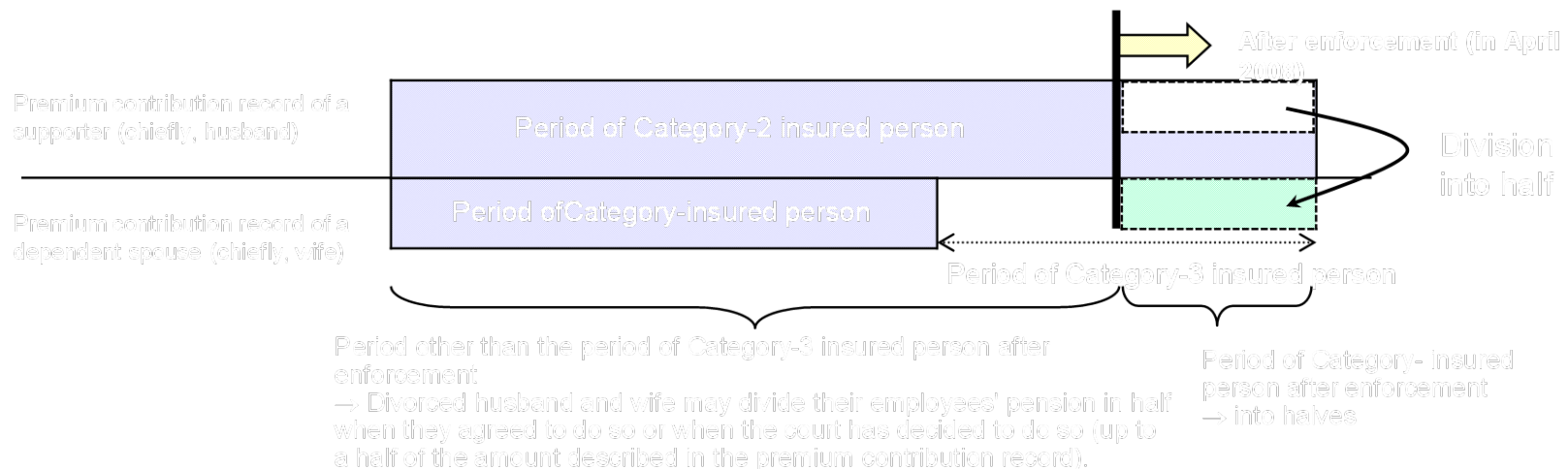
## Division of Employees' Pension for the Period of Category-3 Insured Person

[From April 2006]

- A husband and wife couple is basically regarded that they jointly bore the premiums that Category-2 insured person who has the dependent spouse (Category-3 insured person) bore (which is stipulated in the Act).
- Concerning the period of Category-3 insured person (period since the time when it was enforced), the employees' pension of Category-2 insured person (premium contribution record) may be divided in half for the following cases:
  - ① When a husband and wife couple divorce
  - ② When an applicant for a separation falls into a case prescribed in an ordinance of the Ministry of Health, Labour and Welfare (such as the case where the whereabouts of a spouse is unknown for a long time)

\* When a divorced husband and wife couple agreed to do so or when the court has decided to do so, the couple may apply for a separation of their employees' pension for a period not subject to separation (such as a co-working period).

[Image of division of employees' pension when husband and wife divorced]





## Expanding the Next-Generation Fosterage Support (relation between the benefit of employees' pension and contribution)

[From April 2005]

The revised pension system will expand the following next-generation fosterage support measures until a child grows to three years old:

- ① Expanding premium exemption system during child-care leave (including leaves pursuant to child-care leave)
- ② Introducing an institutional system that calculates 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] |                                | Prior to childbirth | Birth                            | One year old                        | Three years old |  |
|-------------|--------------------------------|---------------------|----------------------------------|-------------------------------------|-----------------|--|
| <Measure ①> | [Working conditions of parent] |                     | Child-care leave                 | Leaves pursuant to child-care leave |                 |  |
|             | [Wage]                         |                     | None or decreasing               |                                     |                 |  |
|             | [Premium]                      |                     | Exempted                         |                                     |                 |  |
|             | [Standard remuneration]        |                     | ↑ Regarded as prior level ↑      |                                     |                 |  |
| <Measure ②> | [Working conditions of parent] |                     | Measure to shorten working hours |                                     |                 |  |
|             | [Wage]                         |                     | Decreasing                       |                                     |                 |  |
|             | [Premium]                      |                     | Levied according to wage         |                                     |                 |  |
|             | [Standard remuneration]        |                     |                                  | Regarded as prior level             |                 |  |

### <Mechanism of Child-Care Leave>

[0 to one year old] Child-care leave or measures such as shortening working hours

[1 to 3 years old] Leave pursuant to child-care leave or measures such as shortening working hours

What is the "measure of shortening working hours"?

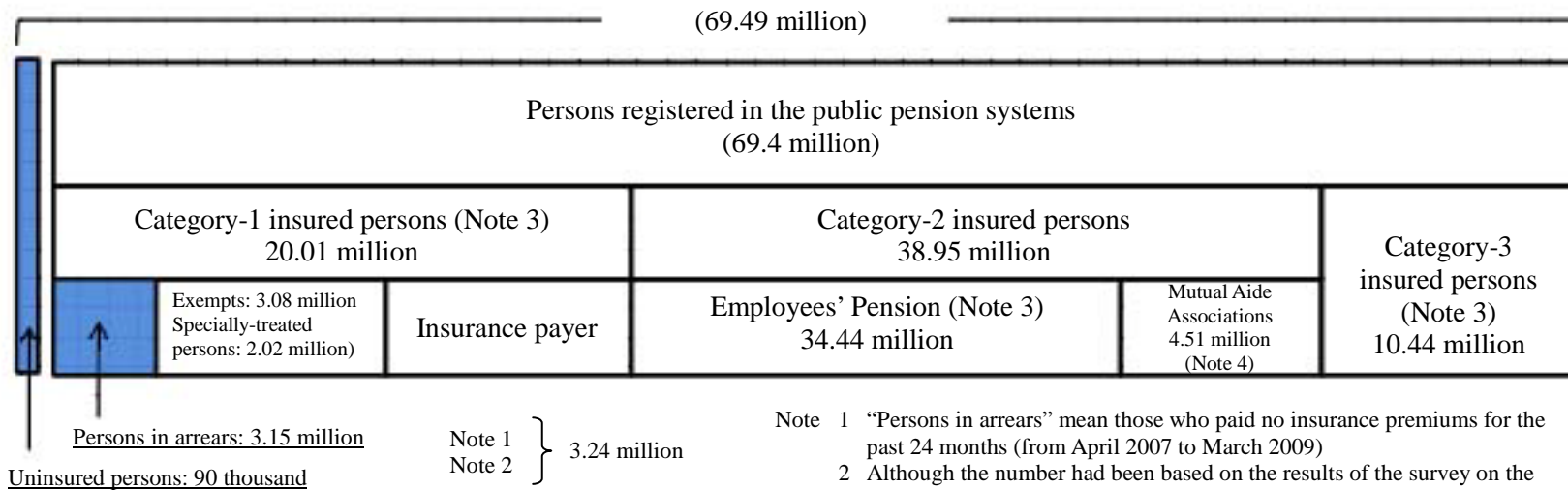
- |                             |  |   |
|-----------------------------|--|---|
| ① Short working hour system | ② Flex time system                         | ③ Starting at a later time and leaving at an earlier time |
| ④ Exempting extra work      | ⑤ Setting up and operating a nursery, etc. |   |

# 1. Pension payment status in FY2008

## (1) Whole situation of the public pension systems

- Approximately 95% of the entire persons to be registered in the public pension systems (including exempted persons) have paid insurance premiums.
- The person in arrears (approximately 3.15 million (Note 1)) and the uninsured persons (approximately 90 thousand (Note 2)) account for 5% of the entire person in the public pension systems.
- \* The national subsidy ratio for the basic pension was raised to 1/2 to further stabilize pension finance.

The number of persons registered in the public pension system



- Note 1 "Persons in arrears" mean those who paid no insurance premiums for the past 24 months (from April 2007 to March 2009)
- Note 2 Although the number had been based on the results of the survey on the status of participation in public pension systems, because the survey was not conducted in FY2007, the number for FY2007 was a provisional one based on a linear distribution of the results in FY2006.
- Note 3 As of the end of March 2009. No.1 insured persons include voluntary insured persons (350,000 persons).
- Note 4 As of the end of March 2008

## The Interim-Organization by the Committee of Pension, the Social Security Council (November 2008)

The Committee of Pension of the Social Security Council has discussed the following matters as future tasks after the 2004 revision and compiled this interim-organization.

- (1) Reviewing pension benefits for people with a low pension/low income
  - [Pension with a minimum security]: A certain amount of pension benefits should be guaranteed for low-pension recipients of the Basic Pension System.
  - [Premium Reduction Support System]: According to the amount of income that an insured person has when he/she pays his premium, part of the premium will be reduced when necessary. The insured must continue paying the reduced premium and the reduced portion will be paid by public funds.
  - [Additional pension benefits for the single low-income elderly, etc.]: Regardless of the insured's eligibility for full benefits of the Basic Pension, supplemental payment will be added to the basic pension benefit for the elderly who are single with an extremely low income.
  - [Pension financed from tax revenue]: Introducing a new tax system to fully finance the Basic Pension System.
  - Continuous discussion is required from a mid/long-term perspective.

- (2) Reviewing the total insurable period (25 years) for the Basic Pension
  - Premiums that have been paid must be reimbursed to the insured as pension benefits as much as possible. When taking this into consideration, the total insurable period may be shortened, for example, to 10 years.

- (3) Introducing the system of starting to pay premiums again after 2 years of nonpayment

- (4) Reviewing the enrollment age for the National Pension Plan
  - When considering the increasing rate of students who pursue higher education as well as the purpose of increasing the rate of premium payment, the enrollment age for the National Pension Plan may be delayed to 25-65 years old. However, this matter requires continuous discussion.

- (5) Expansion of the Employees' Pension coverage for part-time workers, etc.
  - The bill of the integration of the Employees' Pension System must be passed soon. After the functions of the Basic Pension are enhanced, such as the security of the minimum benefits, the environments surrounding the pension systems will be drastically changed. Then, further expansion of the pension coverage must be discussed.

- (6) Exemption from paying premiums during the period of child-care, etc.
  - This exemption system is limited to the insured of the Employees' Insurance. Expanding this system to self-employed people who participate in the National Pension System must be discussed.

- (7) Reviewing the system of the Old-Age Pension for Active Workers
  - While balance of the burden that the working generations carry and the effects on the pension finance must be considered, the starting point of pension suspension, ¥280,000, can be eased to a certain extent.

- (8) Reviewing the standard monthly remuneration
  - In order to have the people with higher-incomes whose standard monthly remuneration exceeds the upper limit carry a burden that matches up to their actual remuneration, raising the present upper limit can be considered.

When additional funds are required for the pension systems, it is important to discuss whether they are to be financed by the contribution of premiums or by tax revenues.

## The Democratic Party of Japan's Manifesto 2009 (excerpt)

### A unified and fair pension system

#### [Policy goals]

- Regain the people's trust in the public pension system.
- Create a system that matches the current period, such as increasing mobility of employment, and one that is transparent and easy to understand.
- Create a system that guarantees more than ¥70,000 monthly pension benefit, which will stabilize the lives of the elderly and remove anxieties among working generations.

#### [Specific measures]

- Acts that will stipulate the following frameworks of the new pension system must be established by 2013.

#### <Frameworks of the new pension system>

- The pension system must be unified: everyone participates in the same pension system and there will be no troublesome procedures required when the insured changes his/her jobs.
- "If the insured persons have the same amount of income, they pay the same amount of premiums." The system of the "Income Proportional Pension" in which pension amount is calculated according to the total amount of premiums paid by the insured must be established.
- The "Minimum Guaranteed Pension" must be established, financed by the consumption tax. This will allow each person to receive a monthly pension benefit of ¥70,000 or higher. Those who can receive more than a certain amount of the "Income Proportional Pension" benefit will have the reduced "Minimum Guaranteed Pension" benefit.

## The Democratic Party of Japan's Policy Index 2009 (excerpt)

### Create a new pension system that is fair

We will change the present pension system, which is in critical condition, to a system that is fair and easy to understand. In order to gain people's trust in the pension system, we will establish laws that stipulate the following frameworks of the new pension system by 2013.

- (1) The pension system must be unified: everyone participates in the same pension system and there will be no troublesome procedures required when the insured changes his/her jobs.
- (2) "If the insured persons have the same amount of income, they pay the same amount of premiums." The system of the "Income Proportional Pension" in which pension amount is calculated according to the total amount of premiums paid by the insured must be established. With this system, we will be able to gain people's trust in the pension system that assures the paid premiums to be surely reimbursed.
- (3) The "Minimum Guaranteed Pension" must be established, financed by the consumption tax. This will allow each person to receive a monthly pension benefit of ¥70,000 or higher. With this system, everyone can receive at least the minimum amount of pension benefit and people can enter their elderly period without anxiety. Those who can receive more than a certain amount of the "Income Proportional Pension" benefit will have the reduced "Minimum Guaranteed Pension" benefit.
- (4) All the amount that is equivalent to the revenue from 5% consumption tax will be used to finance the "Minimum Guaranteed Pension," which will also stabilize the pension financing.