

# Overview of the Corporate Pension

## [History of the Pension System in Japan]

From the end of Taisho Era onwards	Increased number of private companies introduced the retirement lump-sum system.
1936	The Law for Retirement Reserve and Retirement Allowance enacted: Factories and companies having 50 or more employees were required to introduce this system.
1944	The Employees' Pension Insurance Law was enacted. (1942 Workers Pension Insurance Law was revised.): The retirement lump-sum system was designated as voluntary system again.
1952	The Retirement and Remuneration Reserve System was introduced. (The taxation system)
April 1962	The Corporate Tax Law and the Income Tax Law were revised and the Tax-qualified Pension Plan was initiated.
<u>June 1965</u>	<u>Amendment of the Employees' Pension Insurance Law</u> The Employees' Pension Fund System was introduced. (Enforced in October 1966)
February 1967	The Employees' Pension Fund Association was started. The price indexation of pension benefits for the Employees' Pension was introduced: All the expenditure deemed to have accrued as a result of price fluctuations, including one related to the substitutional portion of the Employees' Pension Fund, is paid by the Government-managed Employees' Pension Insurance and therefore the Fund only provided the conventional substitutional portion. It was also admitted for the Fund to operate welfare facilities.
November 1973	
April 1986	The Services Commission Corporation (called Designated Corporation) System of the Employees' Pension Fund was introduced.
<u>May 1988</u>	<u>Amendment of the Employees' Pension Insurance Law:</u> Goals of amount of pension benefit to be achieved set. The transportable system related to those withdrawn from EPP after short participation and the payment guarantee system were started.
December 1989	<u>Amendment of the Employees' Pension Insurance Law:</u> Management of pension asset in Employees' Pension Fund and The Employees' Pension Association were augmented.
April 1991	Establishment of the National Pension Fund System
November 1994	<u>Amendment of the Employees' Pension Insurance Law:</u> The calculation methods of exemption premium rate was improved. Scope of assets subject to the Self-management Services was expanded.
March 2000	<u>Amendment of the Employees' Pension Insurance Law:</u> Deregulation pertaining to business management and asset management, payment of contributions through listed stock, etc.
<u>June 2001</u>	<u>Defined-Benefit Corporate Pension Law was enacted:</u> New corporate pension without substitution (Contract type, Fund type). Protection of eligibility was strengthened. Substitution of Employees' Pension was returned (voluntary). Abolition of the tax-qualified pension plan (in 10 years) <u>Defined-Contribution Pension Law was enacted.</u>
October 2001	Defined-Contribution Pension Law was enforced.
April 2002	Defined-Benefit Corporate Pension Law was enforced. <u>Amendment of the Employees' Pension Insurance Law, Defined-Benefit Corporate Pension Law, and Defined-Contribution Pension Law</u> Exemption of employees' pension funds, Lifting of the freeze on insurance rates (Scheduled to be enforced in April 2005) Preferential measures for dissolution of the employees' pension funds (installment payment and reduced payment of the minimum actuarial liability) (Scheduled to be enforced in April 2005) Raising of the maximum contribution amount of the defined-contribution pension (Scheduled to be enforced in October 2004) Securing of portability of the corporate pension (Scheduled to be enforced in October 2005) Relaxation of the conditions for midterm withdrawal of defined-contribution pension (To be put into effect in October 2005)
June 2004	

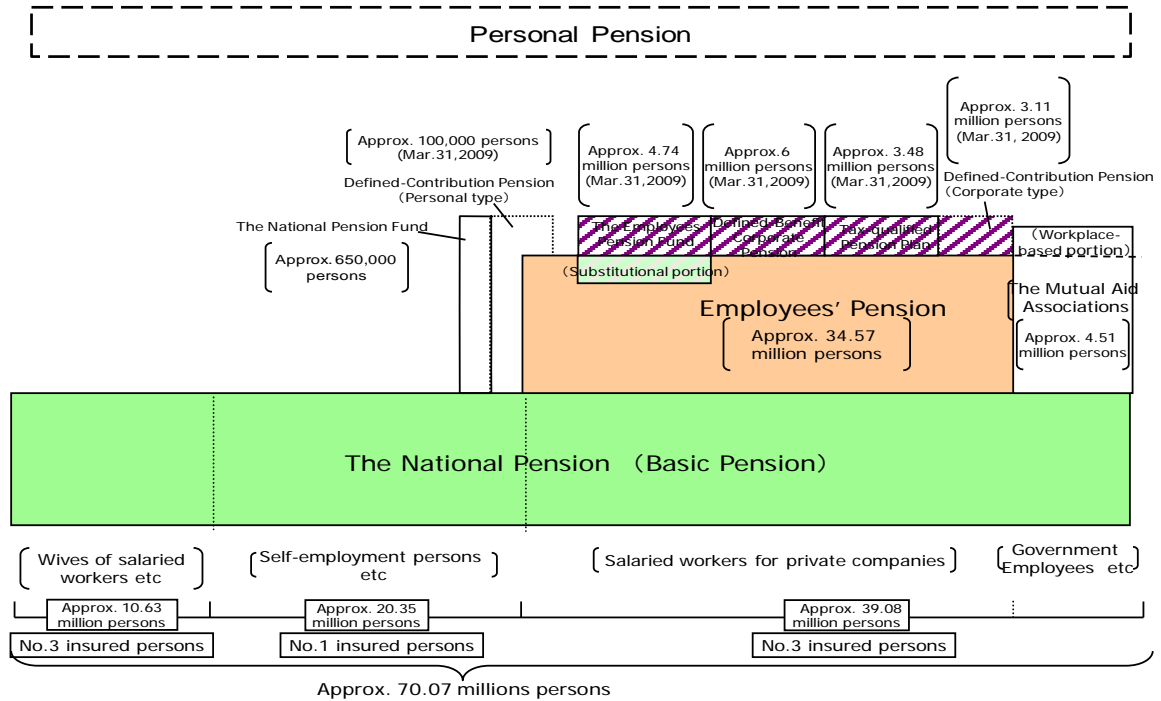
**[Pension Systems to Introduce]**

- (1) Employees' Pension Fund System
- (2) Defined-Benefit Corporate Pension System
- (3) Defined-Contribution Pension System
- (4) National Pension Fund System

Reference: Recent trends

# Outline of the Employees' Pension Fund System

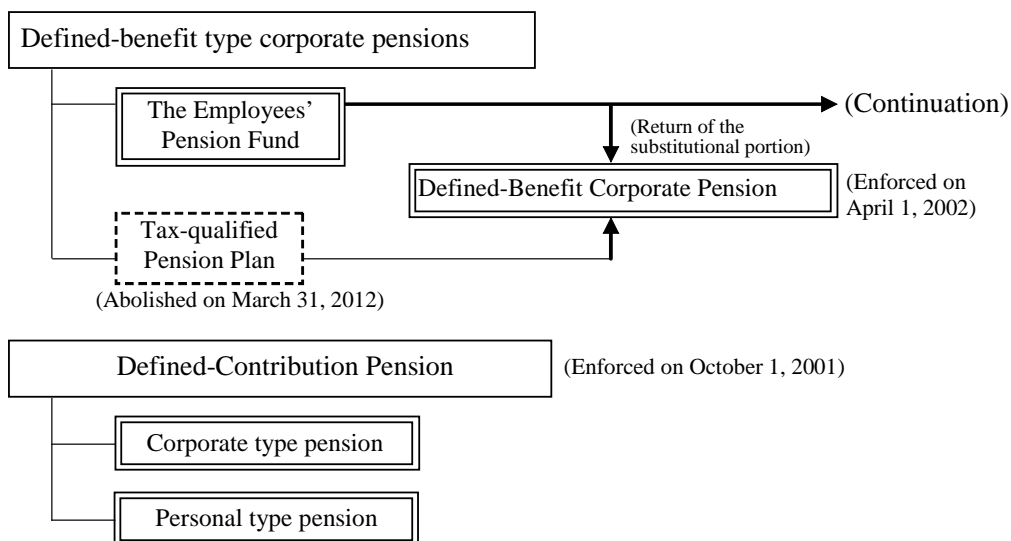
## I. Structure of the Pension System



Note: The numbers of participants are as of the end of March 2008, unless otherwise specified.

Note: The No. 2 insured persons, etc. are persons insured for employee pension (including persons eligible for benefits of any pension system that should provide for a person of 65 or more years old who retired due to age limit or any other reason, in addition to the No. 2 insured persons).

Note: The parenthesized figures are tentative values obtained simply by totaling figures at different points of time.



## **II. Outline of the Employees' Pension Fund System**

### **1. Purposes and History**

The Employees' Pension Fund Scheme has been employed in Japan to offer part of services of the Old-Age Employees' Pension System, among the Employees' Pension Insurance Services operated by the Government of Japan. Further, it is aimed at to secure the pension benefit in addition to the Old-Age Pension of the Employees' Pension Scheme, and then to adjust the differences in functions and costs that the participants bear which the Corporate Pension Schemes/retirement allowance give rise to as against the public pension schemes. The Law on the Employees' Pension Fund System came into effect in October 1966.

### **2. Organization**

The Employees' Pension Funds are public corporations subject to the approval of the Minister of Health, Welfare and Labour, and operated through democratic consultation by the delegates who are elected in the same number of persons from both the companies' employers and the participants of the scheme. Each of the Funds has chairman of the board of directors, directors and secretary that provides necessary services including the payment of pension benefit.

In addition, they also engage in the welfare facility service, such as the establishment and the operation of rest homes etc.

### **3. Requirements for the Establishment of the Employees' Pension Funds**

#### **(1) Forms of the Funds**

##### **1) Independent type**

The Funds established independently by respective companies

##### **2) Joint type**

The Funds established jointly by affiliated companies, such as parent company and its subsidiary(ies)

##### **3) General type**

###### **a. Same or similar business-based type:**

In the case where there are organizations that integrate the companies within the same type and field of business, a fund is established for each business field comprised of those organizations.

###### **b. Community-based type:**

In the case where there are organizations that integrate the companies within the same type and field of business, a fund is established for each business field comprised of those organizations.

**(2) Required Numbers of Participants**

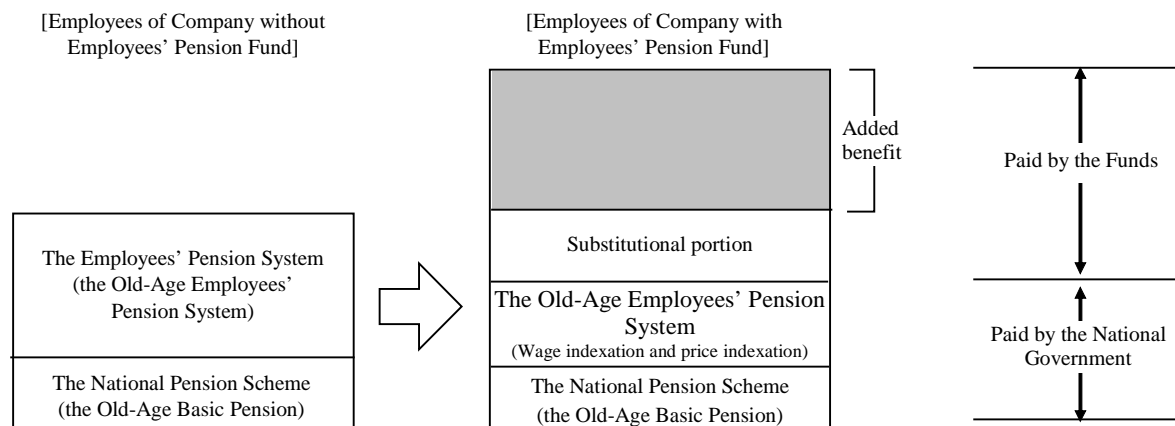
- 1) Independent type: 1,000 or more insured persons of the Employees’ Pension Insurance who are full-time employees (for funds established by March 2005: 500 or more insured persons)
- 2) Joint type: 1,000 or more insured persons of the Employees’ Pension Insurance who are full-time employees (for funds established by March 2005: 800 or more insured persons)
- 3) General type: 5,000 or more insured persons of the Employees’ Pension Insurance who are full-time employees (for funds established by March 2005: 3,000 or more insured persons)

**4. Benefit Provision Services and Premium**

**(1) Benefit Provision Services**

The Employees’ Pension Fund provides in proxy the services (except the payment born by the improvement of the wage indexation and price indexation) for a part of the Old-Age Employees’ Pension in the Employees’ Pension Insurance Scheme. The amount of pension benefit paid by the Funds is 50% higher than that paid under the Old-Age Employees’ Pension (nonbinding target).

The Employees’ Pension Association has been established which provides in block the service to pay pension benefit to those withdrawn from the Employees’ Pension Fund after short participation or to those who have participated in a dissolved Employees’ Pension Fund.



## **(2) Premium**

Each Fund collects premiums from employers of its participant companies and allots the money for operating projects such as pension benefit services carried out thereby. As a general rule, the premiums shall be shared by employers and employees, but for the added benefit portion, the sharing rate of the employers may be able to be increased.

The company employers are exempted from paying the Government the premiums to be used for the pension payment and other services made in proxy by the Funds (exemption premium rate), and they pay the Funds the premiums to be used for the pension payment, including substitutional portion is included, and other services made by the Funds.

In April 1996, the method to determine the exemption premium rates was improved as follows:

Former method: A uniform rate (35/1000) was used, which was set to meet the possible costs for the service provision made in proxy by the Funds in assumption that the Funds are established by all of the insured persons of the Employees' Pension Scheme.

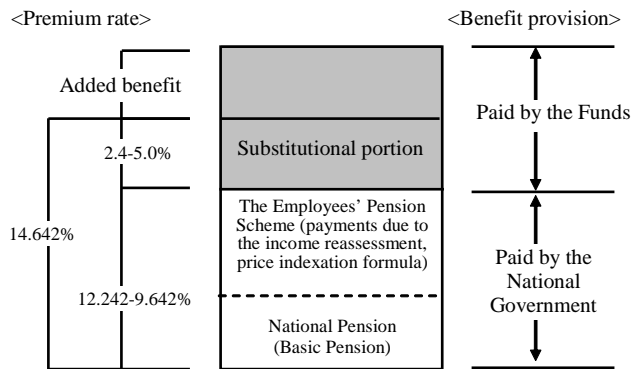
Revised method: A rate which meets each fund's substitutional costs (a premium rate required for the payment of each fund's substitutional benefits) was adopted. As an interim measure, however, the upper and lower limits that range from 32/1,000 to 38/1,000 were set to avoid radical changes.

- \* Because at the time of the revision a 60% majority of all the funds' participants fall within the upper and lower limits and the number of participants in the funds which exceed the upper limit and that in the funds which fall below the lower limit remain in equilibrium, the upper and lower limits were adopted.

Following the introduction of the Total Remuneration System on April 1, 2003, the range was revised to range from 24/1000 to 30/1000, and from 24/1000 to 50/1000 after April 1, 2005.

Current participants in the funds

Method to determine the exemption premium rate



-	3.2%	(14.5%)
Nov. 1994	-	3.5% (16.5%)
Apr. 1996	-	3.2-3.8% (17.35%)
Apr. 2003	-	2.4-3.0% (13.934%)
Apr. 2005	-	2.4-5.0% (13.934%)
Sep. 2006	-	2.4-5.0% (14.642%)
Sep. 2007	-	2.4-5.0% (14.996%)

Figures in parentheses represent contribution rates for the Employees' Pension

(Figures in parentheses are based on annual income.)

The substitution costs increased drastically from April 2005 mainly because of the reduction of the assumed interest rate (5.5% → 3.2%).

- Just as the revision in April 1996, it was decided to set a certain bound pair to avoid radical changes.
- Specifically, the upper and lower limits of 2.4% to 5.0% (based on annual income) were set after ensuring that the difference between the upper or lower limit and the average is nearly equal and that the limits maintain well-balanced relations with the distribution of each fund's substitutional costs.

Upper limit 5.0%	}	Distributed almost evenly.
· Difference 1.3%		
Average 3.7%	}	
· Difference 1.3%		
Lower limit 2.4%		

\* At this time, every fund falls within the upper and lower limits.

(3) Changes in Number of Funds and Participants

	2002	2003	2004	2005	2006	2007	2008
<b>No. of Funds</b>	<b>1,656</b>	<b>1,357</b>	<b>838</b>	<b>687</b>	<b>658</b>	<b>626</b>	<b>617</b>
<b>No. of Participants (thousands)</b>	<b>10,390</b>	<b>8,350</b>	<b>6,150</b>	<b>5,310</b>	<b>5,220</b>	<b>4,780</b>	<b>4,740</b>

## **Outline of the New Defined-Benefit Pension System**

Under the severe economical environment in recent years, problems are emerging on the Corporate Pensions with Defined Benefit such as the Employees' Pension Fund and the Tax-qualified Pension Plan. There are cases in which pension assets are not assured enough at the time of bankruptcy, and an adjustment of the system to protect the rights to receive benefits (eligibility) is becoming necessary.

In order to deal with these kinds of situations, the Defined-Benefit Corporate Pension Law determines standard measures for eligibility protection such as reserve obligations. In addition, it is aimed to reorganize Defined Benefit type Corporate Pensions and reconstruct a new system which will win public confidence.

### **1. Scheme of the System**

#### **<Basic Mechanism>**

##### **Contract-type corporate pension**

Based on the pension agreement between labour and management, the company will make a contract with trust companies, life insurance companies, etc. Management and operation of pension funds will be handled outside the mother company.

##### **Fund-type corporate pension**

A fund will be established as corporate entity independent of the mother company. Management and operation of pension funds as well as benefit payment will be handled by the fund. (Substitution of Employees' Pension will not be done.)

\* See attached for schemes of the Contract-type and Fund-type pensions.

#### **(1) Commencement of the System**

- Companies planning to enforce the corporate pension system must prepare a pension rule regulating the details of the system based on the agreement between labour and management, and obtain approval from the Minister of Health, Labour and Welfare. (In case of fund-type, approval for establishment.) Regulations may be established by multiple companies.
- For Contract-type corporate pension system, the company must make a contract with trust companies, life insurance companies, etc. regarding payment of premiums, management of revenue, etc.

#### **<Details to be prescribed in pension contract>**

- Qualification for receiving benefits
- Content of benefits and method of receiving benefits
- Premiums, etc.

## **(2) Eligible Persons and Qualifications for Participants**

### 1) Eligible persons

Insured persons of Employees' Pension covered workplaces

### 2) Qualifications for participants

Qualifications for participants may be determined in the pension regulation.

In this case, it should not be unfairly discriminatory to a particular person.

## **(3) Benefit Provision**

### 1) Contents of benefits and necessary conditions for payment

#### (Old-Age Pension)

- Pension provided for aging of participant, etc.
- Old-Age Pension should be paid for at least 5 years from the age the participant began receiving benefits.
- In principle, the age participants begin receiving benefits will be between 60 and 65 years old, and it shall be determined in the pension regulation.
- The required period for pension benefits must not exceed 20 years.
- If the participant chooses, he or she can receive a lump-sum instead of pension benefits.

#### (Lump-sum withdrawal benefit)

- If the subscription period is 3 years or more, and pension benefits cannot be received, a lump-sum withdrawal benefit should be paid.
- Starting in October 2005, it became possible to transfer the lump-sum withdrawal benefit to another Corporate Pension or the Employees' Pension Association upon the application by the beneficiary.

#### (Disability Pension, Survivors' Benefit)

- If the insured person, etc. has a high degree of disability or is dead, disability pension and survivors' benefit shall be paid.

### 2) Benefits Standards

- Pension benefits and the amount of lump-sum must be a fixed amount or an amount calculated based on rational foundation such as wages, subscription period, etc.
- Benefits must be determined in accordance to the number of years participated, wage, etc., and must not be discriminatory unfairly to a particular person.

#### **(4) Premium**

- Employers must pay insurance premiums to meet expenses required for the payment of pension benefits and lump-sum benefits.
- In principle, premiums shall be paid by employers. When defined in the pension rule, employees can pay the premium if he or she agrees to.

#### **(5) Operation of Assets**

- Operation of pension assets must be done safely and efficiently.
- In principle, operation of assets shall be handled by trust companies, life insurance companies, investment advisory companies, etc.
- The funds may invest by themselves under the condition that the investment management system of assets is well adjusted, etc.

#### **(6) Termination of Pension System**

- The pension system shall be terminated (dissolved) in the following cases.
  - 1) The employer and participants agree on the termination of the system with stated procedures and is approved by the Minister for Health, Labour and Welfare.
  - 2) Continuation of the system is impossible due to bankruptcy of the mother company etc.
  - 3) The Minister of Health, Labour and Welfare withdraws the approval of contract or establishment of fund.
- Remaining assets shall be divided among participants, etc. It cannot be returned to the employer.

Starting in October 2005, it became possible to transfer the residual assets to the Employees' Pension Association upon the application by the beneficiary.

## **2. Protection of Eligibility**

### **(1) Reserve Obligations**

(Reserve Obligations)

- Employers or the Fund must accumulate pension assets so that they can pay promised benefits in the future.

(Recalculation and verification of budget)

- Employers or the Fund shall be recalculated at least once every 5 years in order to balance pension budget in the future.
- Employers or the Fund will verify the following at the year-end settlement: ① If pension assets are changing as planned. ② If assets equivalent to past subscription period benefits are assured in case the corporate pension dissolves right now.

(Solution for shortfall in reserve, etc.)

- When there is a shortfall in pension reserves, premiums must be paid to cover the shortfall within a given period.
- When there is a surplus in pension reserves, it will be kept in the system in the view of stabilizing the finance operation. It will not be returned to the employer.

If the reserve exceeds the limit set for safety in case there is change in operation environment, etc., premiums should be reduced or payment should be stopped in accordance to the exceeded amount.

(Special Measures)

- For corporate funds with participants less than the given number, a simple standard for recalculation of finance, etc. will be set from the viewpoint of reducing clerical work.

### **(2) Obligation of Trustee**

In order to protect the eligibility of participants etc., responsibilities to participants, etc. and obligations for diversified investment shall be regulated for persons involved in the management and operation of corporate pension, such as employers. Also, there will be clear principles prohibiting actions that would be contrary to the aim of generating profits.

### **(3) Disclosure of Information**

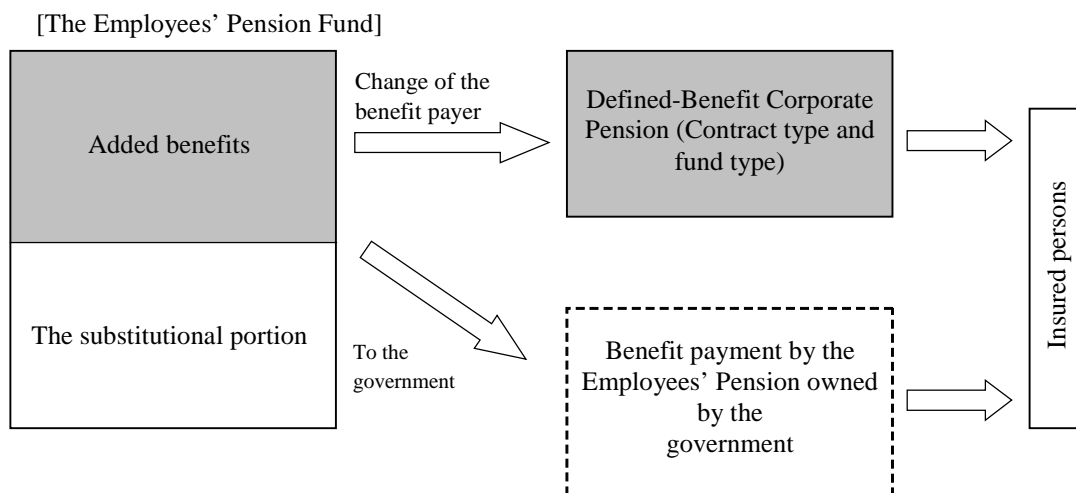
- Employers or the Fund must make the details of the pension rules well known to their employees.
- Employers or the Fund must disclose the situation regarding premium payment, investment of assets and financial situation to participants and report the same to the Minister of Health, Labour and Welfare.

### 3. Shifting from One System to Another

#### (1) Transfer between Different Defined-Benefit Pension Systems

- One can switch between Contract-type Corporate Pension, Fund-type Corporate Pension, and Employees' Pension Fund, and transfer their share of pension assets.
- When switching from the Employees' Pension Fund to the Contract-type or the Fund-type Corporate Pension, the duty to pay the benefit for the portion operated by the Employees' Pension (the substitutional portion) shall be transferred to the government with the proportional assets.

#### Return of the substitutional portion



Duty to pay the added benefit will be transferred to the employers of Contract type of Defined-Benefit Corporate Pension or the Corporate Pension Fund. Duty to pay benefit for the substitutional portion will be transferred to the government.

\* As of March 31, 2009, the number of funds that returned their substitutional portions amount to 807.

#### (2) Transfer to Defined-Contribution Pension System

The Pension can be distributed personally and transferred to Defined-Contribution Pension System (Corporate type).

### 4. Treatment for Tax Purposes

Treatment for tax purpose shall be the following:

- Time of contribution: The total amount paid by the employer shall be treated as loss. Participants' contributions are subject to life insurance premium deduction.
- Time of asset management: Special corporate taxes are levied on the reserve fund.  
Note: Freeze of Special Corporate Tax is suspended until FY 2010.
- Time of pension provision: In case of the Old-Age benefit, public pensions deduction, etc. applied for pensions, and Retirement Income Deduction applied for lump-sum.

## 5. Enforcement Date

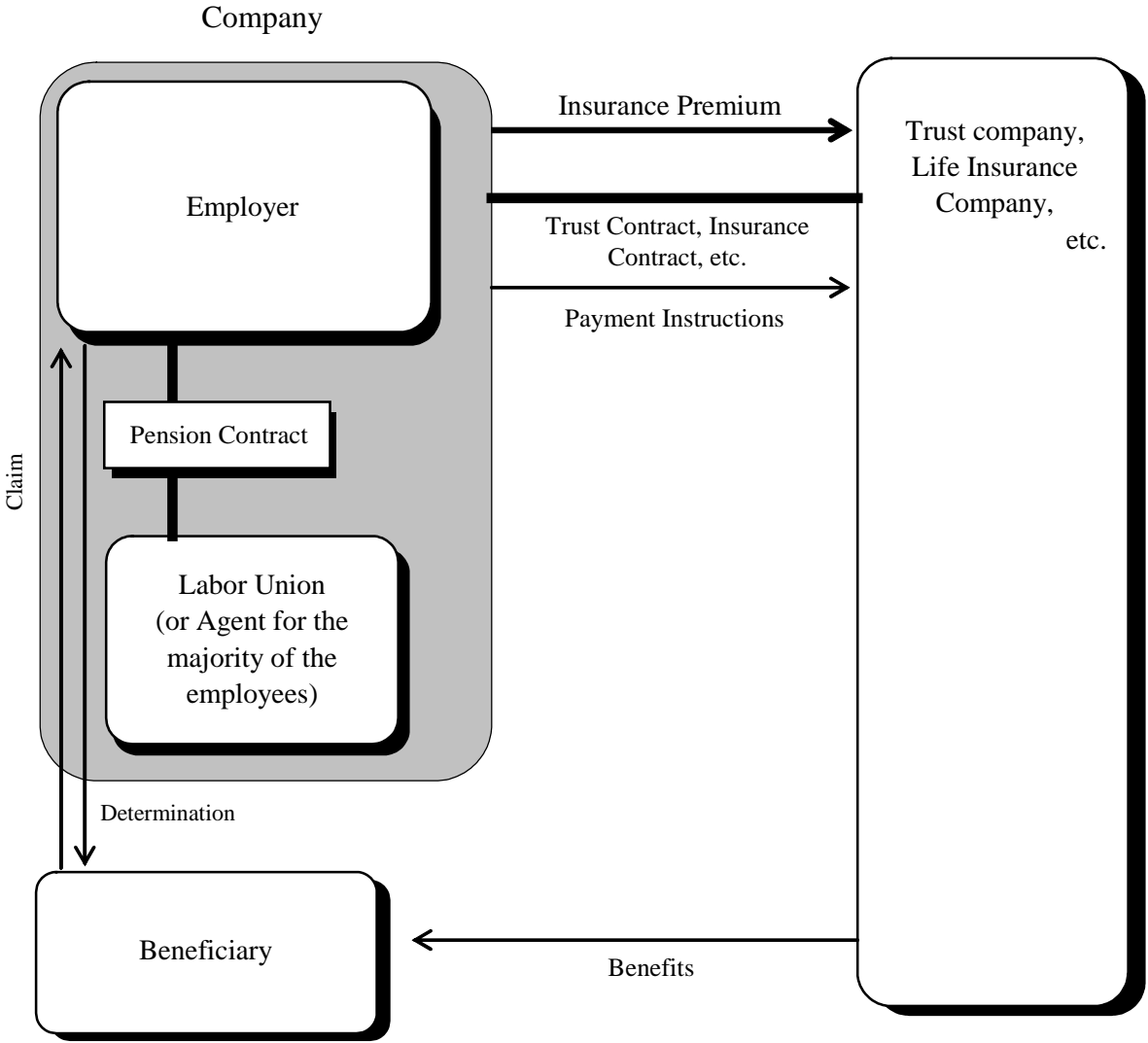
Enforced on April 1, 2002.

Regarding the transfer from the Employees' Pension Fund (return of the substitutional portion), the date of enforcement was September 1, 2003.

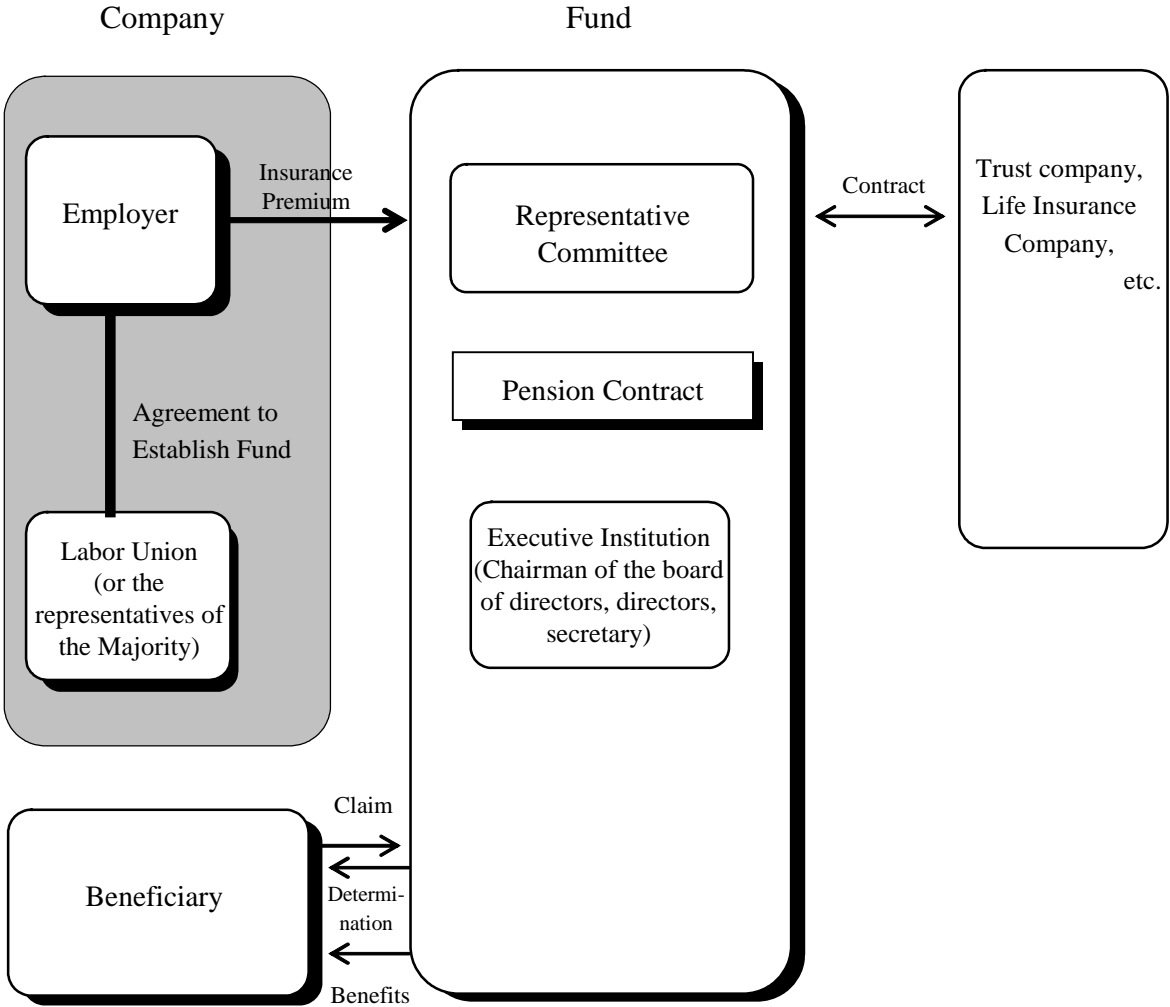
## 6. Existing State of the Defined-Benefit Corporate Pension (Number of the defined-benefit corporate pensioners)

Fiscal year	Contract-type	Fund-type	Total
End of 2002	15	0	15
End of 2003	164	152	316
End of 2004	478	514	992
End of 2005	833	597	1,430
End of 2006	1,335	605	1,940
End of 2007	2,480	619	3,099
End of 2008	4,397	611	5,008

# Contract-type Corporate Pension Scheme



# Fund-type Corporate Pension Scheme



# Scheme for Revenue Accumulation

○ Reserve Obligations      Revenue must be accumulated to make certain pension benefit payments.

○ Creation of long-term plan      Make a long-term plan on revenue at least once every five years based on the company's present situation (situation of employment, retirement, wages, etc.) and outlook of asset management, etc. (Re-calculate finance)

○ Operation of Corporate Fund      Payment of premiums, management of pension assets, payment of pension benefits, etc.

○ Annual checkup

Is the reserve accumulating according to the long-term plan?

If the corporate pension is dissolved right now due to bankruptcy, etc., is it possible to pay pension benefits equivalent to the subscription period?

Check annually at year-end settlement.

○ Conclusion

Shortfall of revenue

↓

Well managed

○ Counter-measures

Resolve shortfall by raising premiums, etc. within a certain period

## **Overview of Defined-Contribution Pension Plan**

With the Defined-Contribution Pension, the contributions paid are clearly specified for each employee, and benefits are determined based on the sum of the contributions and its investment profit. Defined-Benefit Corporate Pensions until now had not been adopted to a sufficient degree by small and medium sized companies and self-employed persons. Also, the transfer of pension assets when changing jobs was not assured, which complicated measures to respond to labour shifts. In order to cope with these problems, the introduction of the Guaranteed Contribution-Based Pension had been examined and was introduced in October 2001.

### **1. Defined-Contribution Pension**

With Defined-Contribution Pension, the contributions paid are clearly specified for each employee, and benefits are determined based on the sum of the contributions and its investment profit.

Employees' Pension Fund System, etc. are Defined-Benefit Pensions whereby companies and other employers guarantee the amount of annual benefits received in retired life.

### **2. Necessity for Defined-Contribution Pension**

- Because the problems given below are associated with Employees' Pension Fund System, etc., Defined-Contribution Pension that participants manage at their own responsibility was introduced to provide a new pension option.
  - (1) Employees' Pension Fund System, etc. have not been adopted to a sufficient degree by small and medium sized companies and self-employed persons.
  - (2) The transfer of pension assets when changing jobs (portability) is not assured, which complicates measures to respond to labour shifts.
  - (3) Since pensions are affected by company performance during major economic fluctuations, retired life of employees' cannot be provided for with sufficient stability by means of current Corporate Pensions, etc. alone.
- In view of the above problems, the use of Defined-Contribution Pension which can be easily adopted by small and medium-sized companies improves and stabilizes the system of assuring the income of employees' life after retirement.

### 3. Overview of the System

#### (1) Participants (persons that can participate in the system)

- 1) Corporate type Pensions (contributions by company only)
  - Company employees (No.2 insured persons of the National Pension)
- 2) Personal type Pensions (contributions by participants only)
  - Self-employed persons (No.1 insured persons of the National Pension)
  - Company employees (Limited to the insured persons who cannot participate in the Employees' Pension Fund, Defined-Benefit Corporate Pension, Corporate-type Pensions of Guaranteed Contribution-based Pension, or others)
- 3) Persons less than 60 years of age

#### (2) Participation and Payment into the System

##### 1) Participation

- Participation in Corporate-type Pensions

Participating companies establish Defined-Contribution Pension rules (determined by agreement between labour and management and approved by the competent minister), and employees participate in the system based on that rules.

- Participation in Personal-type Pensions

Participation in the system through application to the National Pension Fund Federation.

##### 2) Contribution

The company or the participant pays into the system within the maximum contribution amount.

##### Maximum contribution amount

- Contribution of companies using Corporate-type Pensions

Maximum contribution amount paid by entities not participating in the Employees' Pension Fund or the Defined-Benefit Corporate Pension, etc.:

¥552,000 annually (¥46,000 monthly)

Maximum contribution amount paid by entities participating in the Employees' Pension Fund or the Defined-Benefit Corporate Pension, etc.:

¥276,000 annually (¥23,000 monthly)

- Contribution of Self-employed Persons, etc. using Personal-type Pensions:

¥816,000 annually (¥68,000 monthly)

(For participants in the National Pension Fund, the amount remaining after deducting the contribution to the National Pension Fund.)

- Contribution of employees of companies using Personal-type Pensions:

¥216,000 annually (¥18,000 monthly)

\* The maximum contribution amount is to be raised in January 2010 as requested by the business community.

3) Portability and other characteristics of the system

- Records of the asset balance (the sum of contributions and the investment profit) are maintained for each individual participant.
- Pension assets are transferred to the pension system of the new employer when a participant is transferred or dismissed.
- For persons who cannot participate in the system such as No.3 insured persons, assets associated with said participants are transferred to the National Pension Fund Federation.

**(3) Management**

- 1) The participants choose the financial products and give directions to the pension management institutions for the management.
- 2) Financial products include savings deposits, public corporation bonds, mutual funds, stocks, trusts and insurance products, etc. The pension management institutions offer three or more choices of financial products to participants.
- 3) Pension management institutions provide participants with opportunities to change financial products at least once every three months while at the same time providing information concerning financial products.

**(4) Benefits**

1) Form of benefits

- Benefits include old age benefit, disability benefit and lump-sum death benefit; participants can receive old age benefit and disability benefit as pension or as a lump sum.
- Former participants, who have become housewives, etc. and cannot enter the system, can receive a lump-sum withdrawal benefit from the personal pension when the participant's past number of years of contribution was three years or less, or the amount of the total assets is equal to or less than 500,000 yen. Additionally, upon withdrawal from a corporate pension, a person can receive a lump-sum withdrawal benefit when the amount of the total assets is equal to or less than 15,000 yen.

2) Conditions of benefit provision

- Old age benefit can be received from age 60 where ten or more years have passed since the initial contribution, including the period during which assets were only managed.
- For disability benefit and lump-sum death benefit, benefits are provided upon occurrence of major disability or death of the respective participants.

## **(5) Taxation system**

- 1) Contribution stage: Taxes are deducted from income for participants' contribution, added to losses for company's contribution.
- 2) Asset management stage: Special corporation taxes are levied on pension assets (a freeze had been placed on these taxes up to fiscal 2010)
- 3) Pension provision stage: In case of the Old-Age benefit, a public pension deduction applies for pensions. For lump-sum payments, retirement income deduction applies.

## **(6) Protection of Participants**

For the purpose of protecting participants, companies, the National Pension Fund Federation, pension management institutions and asset management institutions must comply with laws and defined-contribution pension agreements and are regulated by law to bear the responsibility of executing pension services faithfully for participants.

### **Note: Pension management institutions**

General corporations, such as financial institutions, should be registered by the Minister of Health, Labour and Welfare and Commissioner of the Financial Services Agency, and present the individual financial products, provide information on the individual financial products, etc., coordinate participants' investment orders, and maintain records regarding the asset-sharing of each participant, etc.

## **(7) Transfer from the Existing System**

Companies that provide the Defined-Contribution Pension (corporate type) may transfer into Corporate-type Pension plans the pension assets of past periods of the retirement lump-sum system or existing corporate pensions as determined by labour-management agreements.

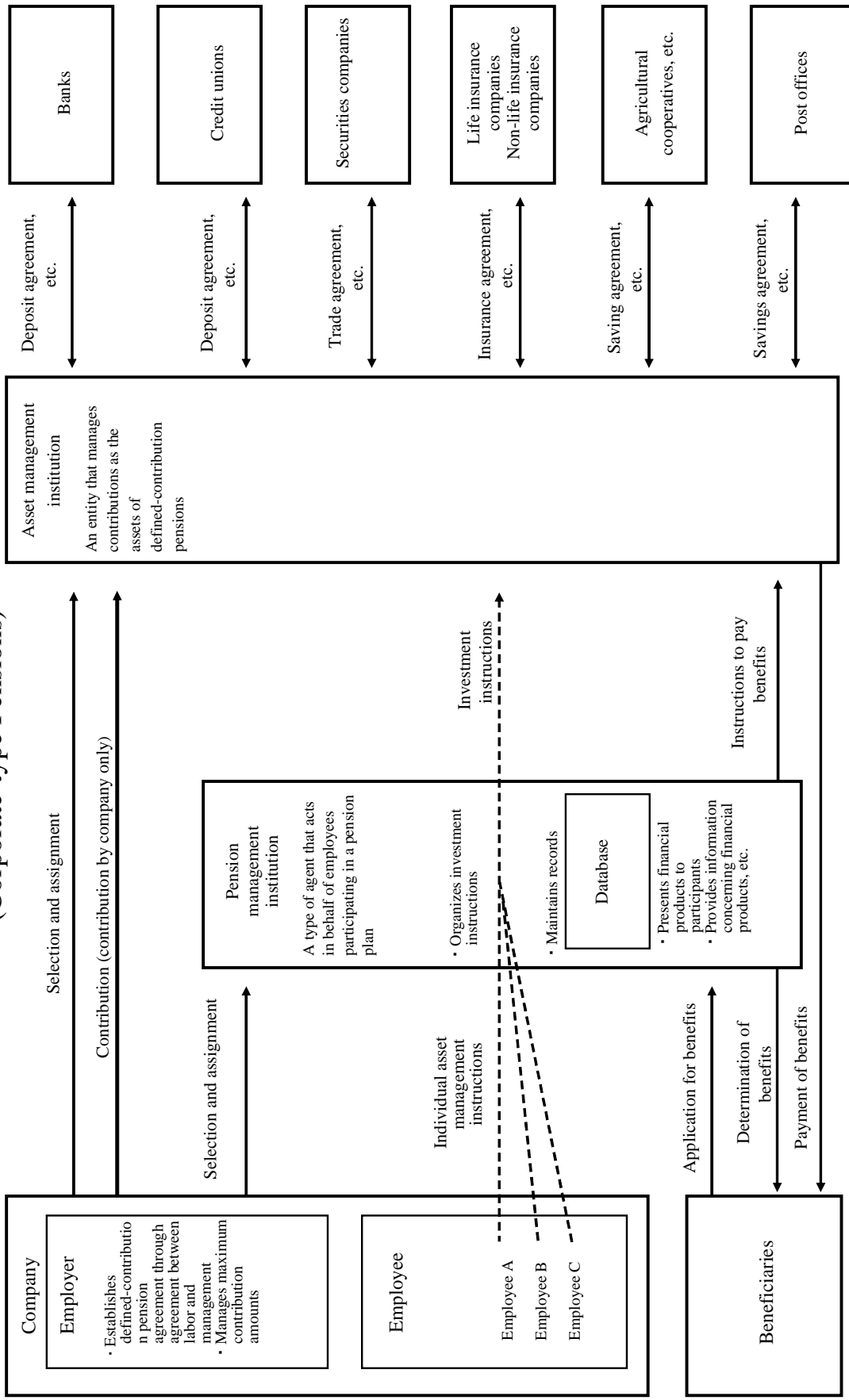
## **4. Enforcement Date**

Enforced on October 1, 2001.

## **5. Existing state of the Defined-Contribution Pension**

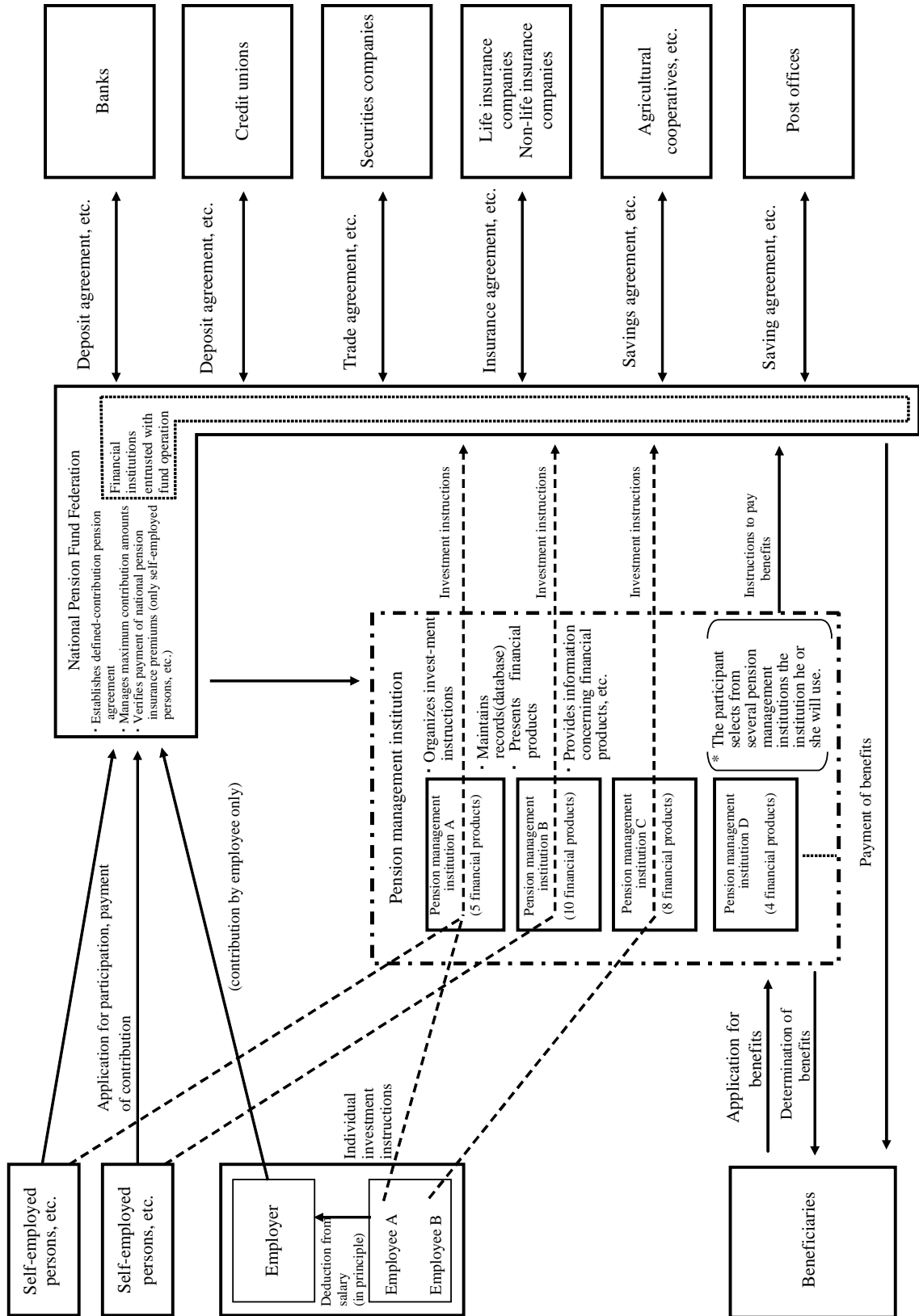
Fiscal Year	Number of authorized corporate-type pension contracts	Number of corporate-type pensioners (10 thousand)	Number of personal-type pensioners (10 thousand)
2001	70	8.8	0.04
2002	361	32.5	1.4
2003	845	70.8	2.8
2004	1,402	125.5	4.6
2005	1,866	173.3	6.3
2006	2,313	218.7	8.0
2007	2,710	271.1	9.3
2008	3,043	311.0	10.1

# Conception Diagram of Defined-Contribution Pension Schemes (Corporate-type Pensions)



Note: The pension management institution and the asset management institution, or the asset management institution and the financial institution that manages pension assets may be the same institution. In addition, the company may act as the pension management institution.

# Conceptual Diagram of Defined-Contribution Pension System (Personal Type)



< Reference >

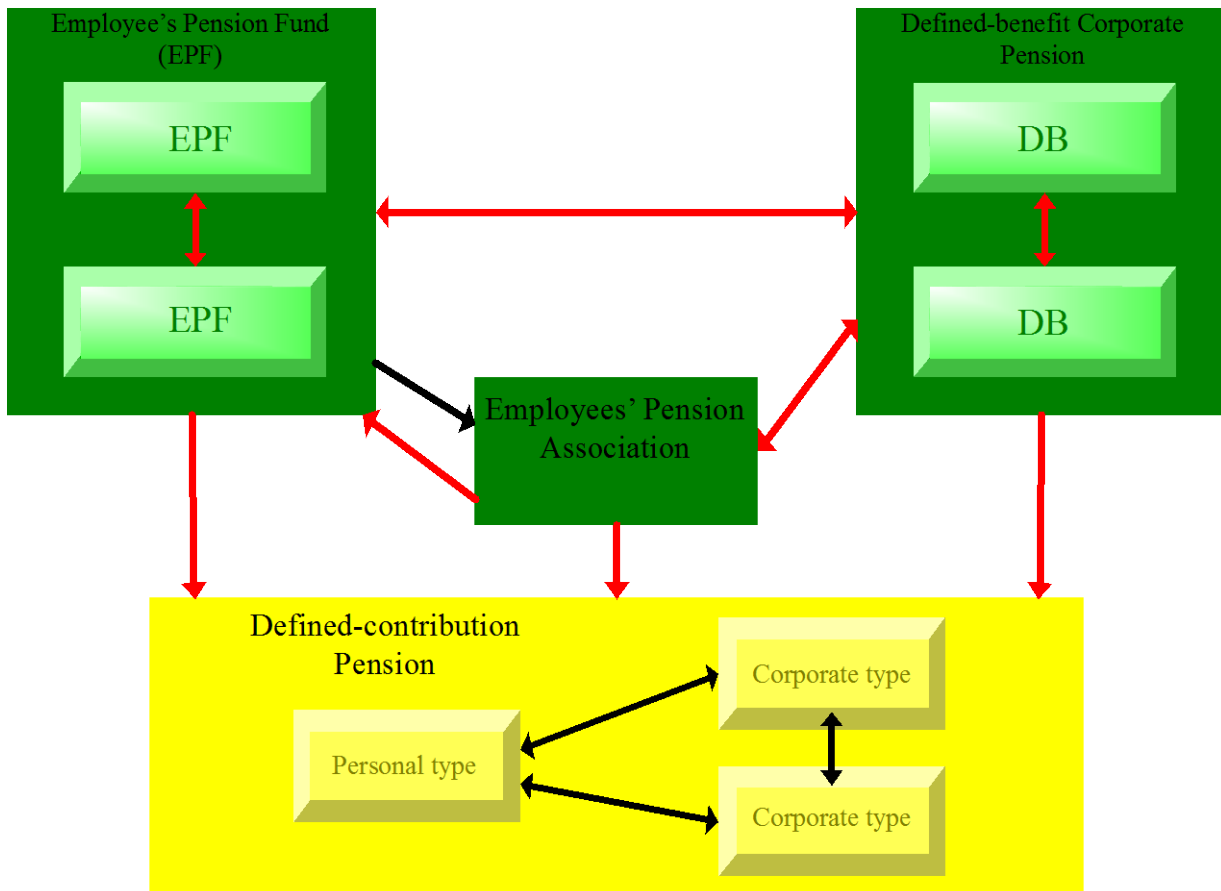
**Portability of the corporate pension (pension summation system)**



The corporate pension scheme was amended in the 2004 amendment in order to flexibly respond to the labour shifts, i.e. job separation and change of individual pensioners, between systems under the current trend of employment liquidation.

also transferred from the Defined-benefit Corporate Pension to the Employees' Pension Association, whereby enabling a pensioner to receive the pension in the future in addition to the lump-sum withdrawal benefit, which is an option made available to a pensioner at the time of withdrawal from the Defined-benefit Corporate Pension or the termination of the system. In addition, the assets can be also transferred from the Employee's Pension Fund and the Defined-benefit Corporate Pension to the Defined-contribution Pension System.

Specifically, from October 2005, the pension assets can be transferred between the Employee's Pension Fund and the Defined-benefit Corporation Pension at the time of separation and job change. The assets can be

<Image of portability of the corporate pension>



 Route of assets transfer that has been available  
 Route of assets transfer enabled from October 2005

# **Outline of the National Pension Fund System**

## **1. Purposes and History**

The National Pension Fund Scheme was introduced in 1991, with the aim of reducing the difference in the level of pension benefit between employees and self-employed persons who were only covered by the Old-Age Basic Pension.

This Scheme is aimed at to secure the pension benefit in addition to the Old-Age Basic Pension. People directly participate in this individually. It is a defined benefit type pension system in which one participates individually.

## **2. Organization**

The National Pension Funds are public corporations subject to the approval of the Minister of Health, Welfare and Labour, and operated through consultation by the delegates who are elected from the participants in the Scheme. Each of the Funds has its chairman of the board of directors, directors, and secretary that provides necessary services including the payment of benefit.

## **3. Forms of the Funds**

- 1) Region-based type: In each prefecture, the fund is organized by 1,000 or more persons who have their address in the prefecture. Presently, each prefecture has one fund. (47 funds)
- 2) Occupation-based type: Organized by 3,000 or more persons engaged in similar business or work. A single fund for one trade across the country. (25 funds as of the end of March 2009)

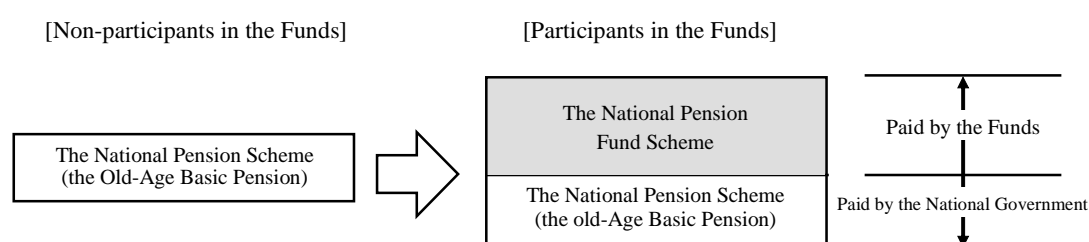
## 4. Benefit Provision Services and Premium

### (1) Benefit Provision Services

Benefit payments under the National Pension Fund Scheme is composed of the basic benefit, bonus benefit and the benefit specific to each of the Funds.

The first lot is compulsory and the second lot and subsequent lots are optional. For the first lot, which is a lifelong annuity, payment starts at the age of 65, and the subsequent lots provide a lifelong annuity type and a terminable annuity type.

The National Pension Fund Federation has been established which provides in block the service to pay pension benefit to those who withdraw before the due time from the National Pension Fund in which he or she has participated or to those who have participated in a dissolved National Pension Fund.



### (2) Premium

The values of premiums differ according to the type of pension, the number of lots and the age at which the personal participates in the scheme (e.g. a person aged 30 participates in one lot of life annuity that guarantees 20,000 yen of monthly pension benefit for 15 years, the premium is set to 9,740 yen for men and 11,290 for women (since April 1, 2009)).

The upper limit of the premium is 68,000 yen per month including the personal defined-contribution pension.

## 5. Current Facts

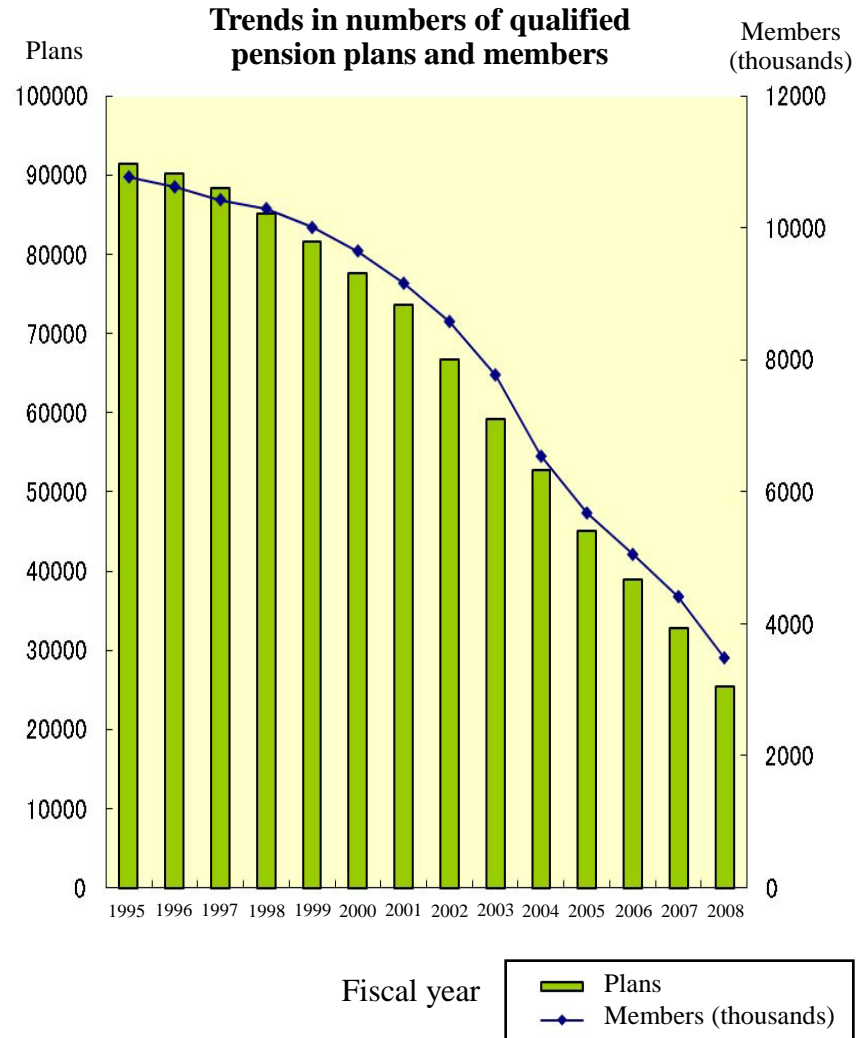
Fiscal year	No. of the Funds	Participation (10,000 persons)	Assets (trillion yen)
2000	72 (25)	76 (13)	1.4
2001	72 (25)	79 (13)	1.5
2002	72 (25)	77 (12)	1.4
2003	72 (25)	79 (13)	1.8
2004	72 (25)	75 (12)	2.1
2005	72 (25)	73 (12)	2.7
2006	72 (25)	69 (11)	2.9
2007	72(25)	65(11)	2.6

(Note 1) Figures in parentheses represent the number of occupation-based type.

(Note 2) The evaluation of assets is made at the current prices.

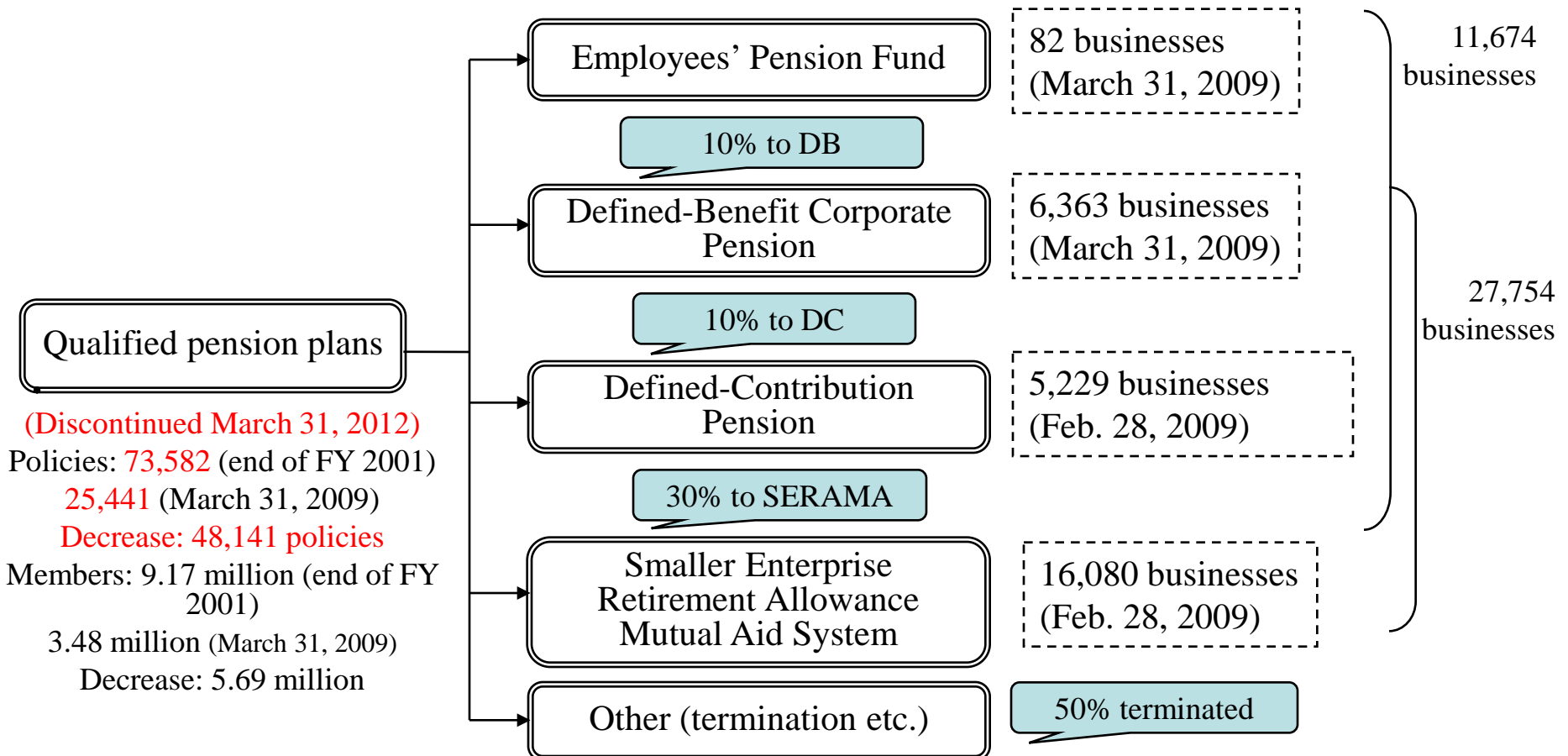
# Qualified Pension Plans

- This system, under which businesses contract with institutions such as trust firms or life insurers to provide pension benefits to employees, was established in 1962. Plans satisfying certain conditions are approved by the Commissioner of the National Tax Administration Agency.
- As of the end of March 2009, there were 25,441 plans in existence, with 3.48 million members.
- With enforcement of the Defined-Benefit Corporate Pension Act (April 1, 2002), new plans are no longer permitted, and existing plans must take steps such as migrating to other systems by the end of March 2012.



# Migration of Qualified Pension Plans to Corporate Pension Plans etc.

- This system, under which businesses contract with institutions such as trust firms or life insurers to provide pension benefits to employees, was established in 1962. Plans satisfying certain conditions are approved by the Commissioner of the National Tax Administration Agency.
- With enforcement of the Defined-Benefit Corporate Pension Act (April 1, 2002), new plans are no longer permitted, and existing plans must take steps such as migrating to other systems by the end of March 2012.



Note 1: The number of businesses migrating from qualified pension plans to defined-benefit corporate pensions consists of the number of businesses handing over rights and obligations or transferring assets to newly established or preexisting defined-benefit corporate pensions.

Note 2: The number of businesses migrating from qualified pension plans to defined-contribution pensions and the Smaller Enterprise Retirement Allowance Mutual Aid System consists of the number of businesses transferring assets through terminating all or part of their qualified pension plans.

# Necessity of Adoption of Personal Contributions (Matching Contributions) In Defined-Contribution Corporate Pension Plans

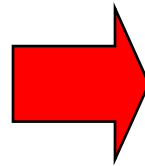
## Proposed request

At present, personal contributions are not permitted in defined-contribution corporate pension plans. However, personal contributions should be permitted and deducted from income (small enterprise mutual aid plan deduction) when not in excess of the current limit on contributions (46,000 yen when no other corporate pension plan applies, 23,000 yen when another corporate pension plan applies) and not in excess of the employer's contributions.

## 1. Necessity of tax assistance

### (1) Insufficient employer contributions

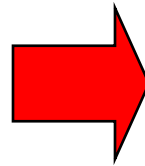
On average for all plans, employer contributions are no more than roughly 11,000 yen (approximately 13,000 yen for the 46,000-yen limit and approximately 10,000 yen for the 23,000-yen limit), a figure insufficient for securing income in old age.



There is a high level of necessity for securing income in old age through individual contributions (matching contributions), and the national government should provide tax assistance for such self-help efforts.

### (2) The majority of businesses adopting the plans are small and medium-sized enterprises

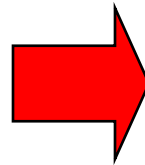
About 80% of companies using defined-contribution corporate pension plans are SMEs with little ability to increase employer contributions.



Providing tax assistance for individual contributions (matching contributions) to contribute to securing human resources by SMEs should be conducted to enhance securing of income in old age for SME employees.

### (3) Employer contributions are low for younger generations

Since in most cases employer contributions are determined by multiplying wages by a fixed percentage, employer contributions are low for younger generations, who tend to earn lower wages.



Younger generations should be enabled to accumulate pension assets by making contributions through their own self-help efforts, to ensure "security" in old age by enhancing future pension income.

## 2. Details of tax assistance measures

Already for personal pension plans, the entire amount of contributions up to the maximum contribution amount is deducted from income (small enterprise mutual aid plan deduction), and personal contributions (matching contributions) to defined-contribution corporate pension plans should be eligible for the same exemptions.

Note: The small enterprise mutual aid plan deduction applies to contributions from self-employed individuals and similar parties under voluntary small enterprise mutual aid plans under which such individuals jointly secure funds for retirement, in addition to contributions to personal defined-contribution pension plans.

# Raising Maximum Contribution Amounts

## (1) Raising the maximums for corporate plans

	Now	After revision
No other corporate pension	46,000 yen	→ 51,000 yen
Other corporate pension	23,000 yen	→ 25,500 yen

## (2) Raising the maximums for individual plans (salaried employees with no other corporate pension plan)

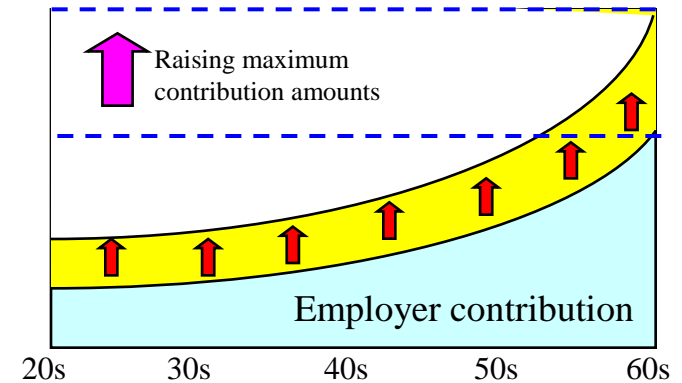
	Now	After revision
	18,000 yen	→ 23,000 yen

### (1) Raising the maximum contribution amount for corporate pension plans

#### Employers' contributions for younger generations are low

As a result of efforts to keep contributions from generations in their best earning years within the maximum contribution amount under seniority-based wage systems, contributions for younger generations are low.

Maximum contribution amounts should be raised to increase contributions across all generations from younger employees to those in their best earning years



### (2) Raising the maximum contribution amount for personal pension plans

#### (1) About one-half of contributions are near the maximum amount

Under the maximum contribution amount of 18,000 yen, 47.6% of contributions are in amounts of 15,000 yen or more, meaning that nearly one-half of participants are making contributions at a level close to the maximum.

#### (2) In comparison with corporate plans, aid for personal plans is low

While the maximum contribution amount for corporate pensions is 46,000 or 23,000 yen, for personal plans it is only 18,000 yen, resulting in a low level of aid for personal self-help efforts.

Individuals should be able to enhance future pension benefits by making contributions through self-help efforts.

# Issues and Responses

## I. Current issues (improvements to the existing system)

### (1) Improvements to defined-contribution pension plans etc.

To provide additional aid for self-help efforts to secure income in old age in addition to public pension plans, enhancing the functions of corporate pension plans etc. and development of an environment that makes it easy to build up benefits are issues.

- Adoption of employee contributions (matching contributions) under defined-contribution pension plans
- Expanding the ranks of people eligible for joining national pension funds
- Provision of address information to corporate pension plans etc. from the Basic Resident Registers Network

(\* While a related bill was tabled in parliament, it was shelved and withdrawn.)

### (2) Financial management of corporate pensions in accordance with current economic conditions

Regarding raising contributions to resolve shortages in reserves (amounts required for pensions benefits) under employee pension plans etc., in light of the current economic crisis measures such as deferment of up to two years have been adopted, assuming revision of benefits, finances, etc. from a medium- to long-term perspective.

At issue is appropriate responses on the part of each employee pension plan etc. in response to these measures.

### (3) Migration of qualified pension plans to other corporate pension plans

Another issue is that of promoting smooth migration from qualified pension plans, which are slated for discontinuation on March 31, 2012, to other corporate pension plans.

## II. Medium- to long-term issues

In accordance with discussions on steps such as consolidation of public pension plans, there is a need for consideration of the ideal form of corporate pension plans etc., which have been designed assuming current public pension plans.