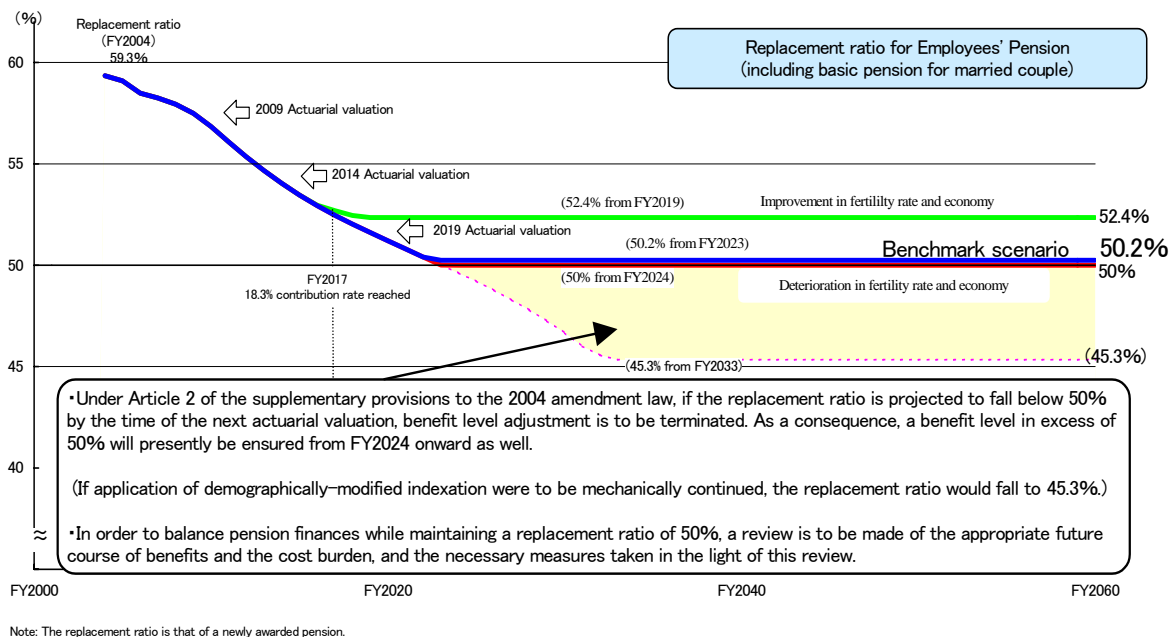


Figure 2-2 shows the projected benefit level for the Employees' Pension (replacement ratio of the model pension at the pensionable age of 65) in the event of a change in socioeconomic conditions.

If there is an amelioration in both the fertility rate and economic trends, benefit level adjustment by demographically-modified indexation will be terminated in FY2019, and the replacement ratio will be 52.4%.

In case there is a deterioration in both the fertility rate and economic trends, pension finances are projected not to balance unless benefit level adjustment by demographically-modified indexation is continued even after the replacement ratio slips below 50% in FY2024. In such a case, adjustment by demographically-modified indexation should be terminated or other measures taken at the time of the last actuarial valuation before that point. It is also stipulated in law that benefits and contributions as a whole should be reviewed and necessary measures should be taken in such a case. If application of demographically-modified indexation were to be continued and assets worth one year of expenditures in FY2100 were to be accumulated, then projections indicate that such indexation would have to be continued until FY2033 and the replacement ratio would be 45.3%.

Figure 2-2 Projected replacement ratio in the event of a change in socioeconomic conditions: 2004 actuarial valuation



3. Future outlook regarding pension finances

Projections regarding the revenues, expenditures and assets of the Employees' Pension and National Pension under the benchmark scenario of socioeconomic conditions are as shown in Tables 2-5 and 2-6.

Taking into consideration a period of approximately 100 years from the present, the balancing method adopted is the closed-period-balancing method, with assets in FY2100 set at one year of expenditures.

The balance of revenues less expenditures is a deficit of ¥3.6 trillion under the Employees' Pension and a deficit of ¥0.2 trillion under the National Pension in FY2005. However, as a result of raising the contribution level and also progressively raising the national subsidy to one half, the deficits of the Employees' Pension and the National Pension are projected to be eliminated in FY2010 and FY2009 respectively.

In Japan, the fertility rate is in decline and the population is aging. Population aging, as measured based on the proportion of persons aged 65 and over to persons aged 20-64, will progress rapidly from the 2040s, when the children of the baby-boomer generation become pensioners, by which time Japan will have become a "super-aged society."

In order to balance pension finances from the 2040s, therefore, when contribution revenues from those in employment will be exceeded by pension benefits paid to older persons, allocation of asset resources to benefits will begin in earnest through the use of principal as well as investment profits.

Table 2-5 Financial projections for Employees' Pension (2004 actuarial valuation)

Final contribution rate: 18.3%

National subsidy: raised to one half by FY2009
 National subsidy of 11/1000th added to 1/3rd in FY2005-2008
 (national subsidy of ¥27.2 billion added to 1/3rd in FY2004)

Adjustment period (year of termination)	2023
Replacement ratio (in year of termination)	50.2%

Year	Contribution rate (% of annual earnings)	Total revenue			Total expenditure		Balance of revenues and expenditures	Year-end assets	Year-end assets (in FY2004 value)	Reserve ratio
		Contribution revenue	Investment profits	Basic pension contribution						
FY	%	¥ trillion	¥ trillion	¥ trillion	¥ trillion	¥ trillion	¥ trillion	¥ trillion	¥ trillion	
2005	14.288	28.3	20.8	3.0	31.9	11.1	-3.6	163.9	163.9	5.2
2006	14.642	29.8	21.6	3.5	32.9	11.3	-3.1	160.8	161.1	5.0
2007	14.996	31.2	22.6	4.0	33.8	11.5	-2.5	158.3	157.8	4.8
2008	15.350	33.0	23.5	4.7	34.9	12.0	-1.9	156.4	153.1	4.5
2009	15.704	36.1	24.5	4.9	36.5	12.6	-0.4	156.0	149.2	4.3
2010	16.058	37.6	25.5	4.9	37.5	13.0	0.0	156.0	145.3	4.2
2015	17.828	44.0	30.8	5.1	41.4	15.1	2.6	162.5	137.3	3.9
2020	18.30	49.2	34.8	5.8	43.3	16.5	5.9	186.3	141.8	4.2
2025	18.30	53.7	37.7	6.9	45.5	17.7	8.2	223.1	153.1	4.7
2030	18.30	58.2	40.0	8.3	49.5	19.4	8.7	266.6	164.9	5.2
2040	18.30	66.2	43.1	10.3	62.9	25.4	3.3	330.1	165.8	5.2
2050	18.30	73.5	47.2	10.6	74.8	31.4	-1.3	335.0	136.7	4.5
2060	18.30	80.6	52.8	9.9	82.9	35.5	-2.4	314.4	104.2	3.8
2070	18.30	87.0	58.4	9.0	90.8	39.3	-3.7	284.4	76.6	3.2
2080	18.30	94.2	65.0	7.6	99.6	43.4	-5.4	237.9	52.1	2.4
2090	18.30	103.6	73.9	5.7	109.8	48.0	-6.2	178.4	31.7	1.7
2100	18.30	115.1	84.8	3.7	121.5	53.3	-6.4	115.1	16.6	1.0

Notes: 1. Long-term economic assumptions (from FY2009) are as follows:

Wage growth rate	2.1%
Price inflation	1.0%
Rate of investment return	3.2%
Disposable income growth rate	2.1% (1.9% until FY2017)

- The "reserve ratio" is the ratio of assets at the end of the previous fiscal year to total expenditure in the current year.
- "In FY2004 value" indicates the value converted to FY2004 value by adjusting for the wage growth rate.
- Projected overall finances of the Employees' Pension including the Employees' Pension Fund substitutional component.

Table 2-6 Financial projections for National Pension (2004 actuarial valuation)

Final contribution: ¥16,900 (in FY2004 value)

National subsidy: raised to one half by FY2009
 National subsidy of 11/1000th added to 1/3rd in FY2005-2008
 (national subsidy of ¥27.2 billion added to 1/3rd in FY2004)

Year	Monthly contribution (in FY2004 value)	Total revenue			Total expenditure	Balance of revenues and expenditures	Year-end assets	Year-end assets (in FY2004 value)	Reserve ratio
		Contribution revenue	Investment profits						
FY	¥	¥ trillion	¥ trillion	¥ trillion	¥ trillion	¥ trillion	¥ trillion	¥ trillion	
2005	13,580	4.0	2.1	0.2	4.2	-0.2	10.8	10.8	2.6
2006	13,860	4.3	2.2	0.2	4.5	-0.2	10.6	10.6	2.4
2007	14,140	4.6	2.4	0.3	4.8	-0.2	10.4	10.3	2.2
2008	14,420	4.8	2.5	0.3	5.0	-0.2	10.1	9.9	2.1
2009	14,700	5.4	2.5	0.3	5.0	0.3	10.5	10.0	2.0
2010	14,980	5.6	2.6	0.3	5.1	0.5	11.0	10.2	2.1
2015	16,380	6.5	3.0	0.4	5.9	0.7	13.8	11.7	2.2
2020	16,900	7.3	3.4	0.6	6.4	0.9	17.9	13.6	2.6
2025	16,900	8.1	3.7	0.7	7.0	1.1	23.2	15.9	3.2
2030	16,900	9.2	4.0	0.9	8.0	1.2	29.2	18.1	3.5
2040	16,900	11.2	4.3	1.2	10.6	0.6	38.7	19.4	3.6
2050	16,900	13.1	4.7	1.3	13.0	0.1	42.0	17.2	3.2
2060	16,900	14.7	5.3	1.3	14.8	-0.1	41.9	13.9	2.8
2070	16,900	16.1	5.8	1.3	16.5	-0.3	39.7	10.7	2.4
2080	16,900	17.7	6.5	1.1	18.2	-0.5	35.2	7.7	2.0
2090	16,900	19.5	7.5	0.9	20.2	-0.7	29.0	5.2	1.5
2100	16,900	21.6	8.6	0.7	22.4	-0.8	21.6	3.1	1.0

Notes: 1. Long-term economic assumptions (from FY2009) are as follows:

Wage growth rate	2.1%
Price inflation	1.0%
Rate of investment return	3.2%
Disposable income growth rate	2.1% (1.9% until FY2017)

- The "reserve ratio" is the ratio of assets at the end of the previous fiscal year to total expenditure in the current year.
- "In FY2004 value" indicates the value converted to FY2004 value by adjusting for the wage growth rate.