

Annual Actuarial Report on the Public Pension System in Japan

Fiscal Year 2019 (Key Points)

1. Adjusted Financial Status

The adjusted financial status of the public pension system as a whole in FY2019 is as follows:

The Actuarial Subcommittee compares the financial status of individual schemes transversely across the schemes. In light of the fiscal management performed based on the pay-as-you-go system as a rule, the Subcommittee expressed the financial status of a scheme slightly differently from the original income statement by dividing it into the following two parts: “Annual balance of revenues and expenditures excluding investment income”¹ and “Investment income.” Hereafter we call the financial status expressed in this way the ‘Adjusted financial status.’ The revenue of the public pension system as a whole was composed of JPY39.1 trillion of the contribution income, JPY13.0 trillion of the national and local government subsidies, etc., and so on. The total amount of revenues excluding investment income was JPY52.9 trillion. The expenditure was mainly composed of JPY53.0 trillion of benefit disbursements, and the total amount of expenditures was JPY53.3 trillion. As a result of these, the annual balance of revenues and expenditures excluding investment income was a negative JPY0.4 trillion.

Then, the investment income was negative JPY9.8 trillion on a market value basis. This was due to the impact of short-term fluctuations in financial markets in the fourth quarter, caused, in turn, by concerns over the global economy following the COVID-19 pandemic.

The amount of reserves of the public pension system as a whole at the end of FY2019 was JPY190.5 trillion on a market value basis which decreased by JPY10.1 trillion compared with the previous fiscal year (See Figure 1 below and Figure 2-3-2 in the full text of the annual report.).

Figure 1 Adjusted financial status (FY2019)

Item	Whole Employees’ Pension Insurance JPY 100 million	National Pension		Public pension system as a whole JPY 100 million
		National Pension Account JPY 100 million	Basic Pension Account JPY 100 million	
Reserves at the previous fiscal year end (a) (on a market value basis)	1,881,696	91,543	33,355	2,006,594
Revenues (calculated financial status)				
Total amount	503,376	34,168	245,758	529,149
(of which) Contribution income	377,446	13,458	•	390,904
(of which) National and local government subsidies etc.	112,019	17,684	•	129,703
(of which) Subsidies from Basic Pension	5,521	2,971	•	•
(of which) Revenue of the contribution to Basic Pension	•	•	245,662	•
Expenditures (calculated financial status)				
Total amount	509,455	35,958	241,847	533,108
(of which) Benefit disbursements	292,173	4,082	233,352	529,607
(of which) Contribution to Basic Pension	214,892	30,769	•	•
(of which) Benefits equivalent to Basic Pension (Subsidies from Basic Pension)	•	•	8,492	•
Annual balance of revenues and expenditures excluding investment income (b)	Δ6,079	Δ1,790	3,911	Δ3,959
Investment income (c) (on a market value basis)	Δ93,115	Δ4,595	15	Δ97,696
Others (d) (on a market value basis)	184	74	-	259
Reserves at the fiscal year end (a + b + c + d) (on a market value basis)	1,782,686	85,232	37,281	1,905,199
Change in reserves from the previous fiscal year end (on a market value basis)	Δ99,010	Δ6,311	3,926	Δ101,396

Note 1: To observe whole Employees’ Pension Insurance (EPI) and the fiscal revenue and expenditure situation for EPI as a whole, “give-and-take” exchanges between EPI implementation organizations are excluded from both revenues and expenditures. In the same way, “give-and-take” transactions within the public pension system are excluded from both revenues and expenditures for the public pension system as a whole.

Note 2: Whole EPI and public pension system as a whole do not include the substitutional portion for Employees’ Pension Funds (EPFs).

Note 3: The amount recorded as “Others (d)” is “Transfer to reserves from the Business Account” in EPI Account and the National Pension (NP) Account of NP.

¹ It is calculated by excluding “Investment income” and “Withdrawal from reserves” of the Basic Pension Account of the NP on the revenue side and excluding “Losses on the sale of marketable securities, etc.” of the National Public Officers Mutual Aid Associations (NPO-MAAs) and the Local Public Officers Mutual Aid Associations (LPO-MAAs) from “Others” on the expenditure side.

2. Insured Persons

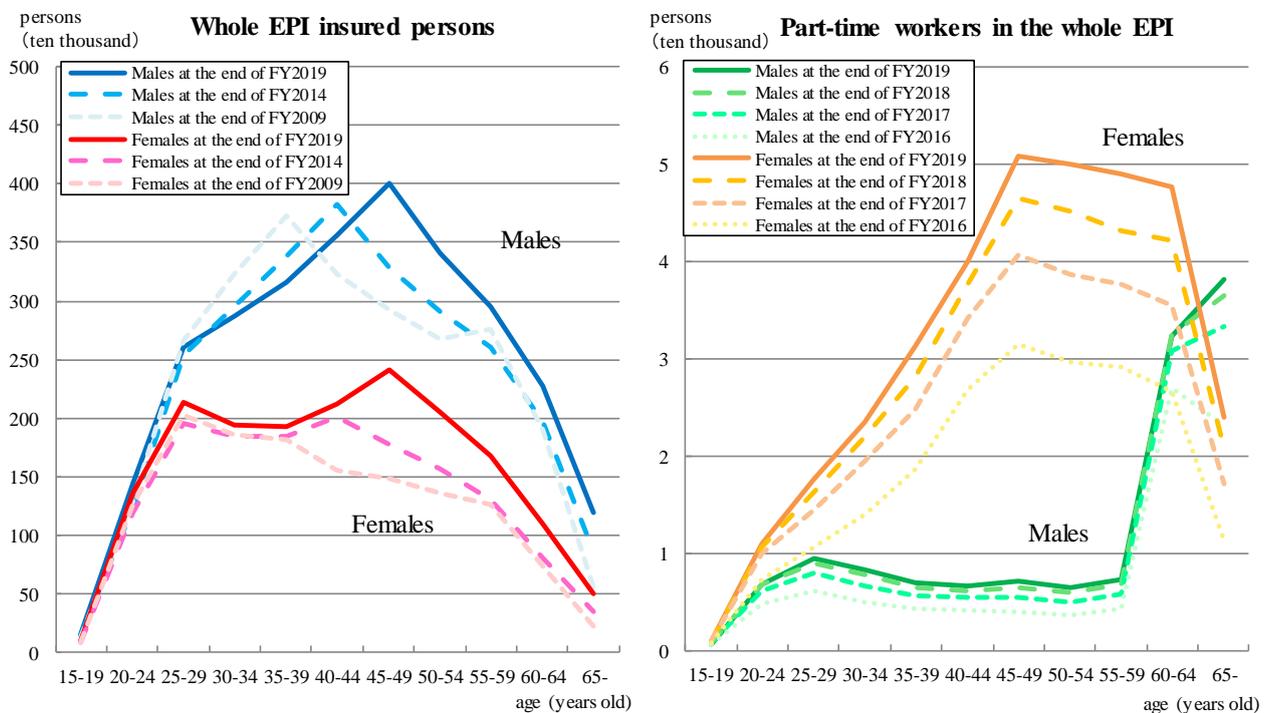
As of the end of FY2019, there were 44.88 million EPI insured persons (including 0.48 million part-time workers, comprising 1.1% of the overall EPI total), 14.53 million for NP Category-1 (namely, self-employed persons, etc.) and 8.2 million for NP Category-3 (namely, dependent spouses of EPI insured persons). These brought the total number of insured persons for the public pension system as a whole to 67.62 million. While the number of insured persons of both NP Category-1 and Category-3 decreased, that of EPI insured persons increased, resulting in an increase of 0.2% for the public pension system as a whole.

The increase in the number of EPI insured persons and the decrease in those insured in NP Category-1 and Category-3 is considered attributable to the effect of a shift from persons insured in NP Category-1 and Category-3 to EPI, as more people are becoming employed amid a decrease in the working-age population.

The rate of increase in the number of insured persons for EPI is 1.3%, which remains unchanged after the part-time workers are excluded. For part-time workers alone, the rate of increase is 8.6%. The number of part-time workers has continued to increase, from 0.29 million at the end of FY2016 to 0.48 million at the end of FY2019 (See Figure 2-1-1 in the full text of the annual report.).

Regarding the age distribution of EPI insured persons, for the entire cohort of whole EPI male insured persons, the age group accounting for the largest proportion shifted from 35-39 a decade ago to 40-44 five years earlier, followed by 45-49 at the end of FY2019 (as the junior baby-boomer generation aged). As for the whole EPI female insured persons, the number of those aged 40 or over increased. For part-time workers as a proportion of whole EPI insured persons, the number of those insured increased from the end of the previous fiscal year, except for male 15-19 and male 60-64 age groups (See Figure 2 below and Figure 2-1-6 in the full text of the annual report.).

Figure 2 Change in the age distribution of EPI insured persons



3. Comparative Analysis of Actual Results to the Projections made by the 2019 Actuarial Valuation

The 2019 Actuarial Valuation is the first actuarial valuation after the unification of employees' pension plans and this report also compares and verifies the actual results of the whole EPI and projections.

Since FY2019 is the first year in which actual results and projections were compared, the numbers of insured persons and total beneficiaries, etc. are almost in line with projections.

Conversely, actual reserves fell below projections due to a temporary but significant negative on return on investment on a market value basis. These were caused by concerns over the global economy following the COVID-19 pandemic, leading to the impact of short-term fluctuations in financial markets in the fourth quarter².

In this report, the actual annual reserve amount is used to assess the financial status. As part of the peer review³, however, the use of reserve amounts smoothed over a certain period may be considered to assess the financial status, as the market value of the reserve is susceptible to short-term fluctuations in financial markets, as stated in the recommendation regarding how best to set the initial reserve value. Further study is needed on this matter.

From the perspective of finance of public pensions, we should pay attention to the long-term trend of actuarial status, regardless of the short-term change, including those of demographic and economic factors.

² It plummeted in the fourth quarter of FY 2019 (January-March 2020) but has been recovering since the first quarter of FY 2020 (April-June 2020).

³ See the “Financial verification of public pension system based on 2019 actuarial valuation (peer review)” released by the Social Security Council Pension Actuarial Subcommittee (December 25, 2020).