

# Annual Actuarial Report on the Public Pension Plans in Japan Fiscal Year 2023 (Key Points)

The “Annual Actuarial Report on the Public Pension Plans in Japan” is a compilation of the results of cross-plan analyses and assessment of the financial status of Japan’s public pension plans each fiscal year. This report is submitted from a professional perspective by Pension Actuarial Subcommittee of the Social Security Council, based on the reports from each pension plan and implementing organization.

## 1. Financial status of Public Pension Plans

(See page 170-175 in the full text of the annual report)

Looking at the public pension system as a whole, in FY2023, the total amount of revenues was JPY 54.4 trillion and the total amount of expenditures was JPY 54.5 trillion excluding investment profit/loss. As a result, the annual balance of revenues and expenditures excluding investment profit/loss was negative JPY 0.1 trillion. and the investment profit/loss on a market value basis was positive JPY 53.6 trillion.

Accordingly, the reserve fund on a market value basis at the fiscal year end increased by JPY 53.5 trillion from the previous fiscal year end to JPY 304.0 trillion.

### Adjusted financial status (FY2023)

| Classification                                                              |                                                                                | Whole Employees' Pension Insurance | National Pension         |                       | Public pension plans as a whole |
|-----------------------------------------------------------------------------|--------------------------------------------------------------------------------|------------------------------------|--------------------------|-----------------------|---------------------------------|
|                                                                             |                                                                                |                                    | National Pension Account | Basic Pension Account |                                 |
|                                                                             |                                                                                | JPY trillion                       | JPY trillion             | JPY trillion          | JPY trillion                    |
| Reserves at the previous fiscal year end (a)                                |                                                                                | 234.2                              | 10.5                     | 5.9                   | 250.5                           |
| Revenues<br>(adjusted financial items basis)                                | Total amount                                                                   | 51.4                               | 3.3                      | 23.1                  | 54.4                            |
|                                                                             | (of which) Contribution income                                                 | 40.4                               | 1.3                      | •                     | 41.8                            |
|                                                                             | (of which) National and local government subsidies etc.                        | 10.3                               | 1.8                      | •                     | 12.1                            |
|                                                                             | (of which) Subsidies from Basic Pension                                        | 0.2                                | 0.1                      | •                     | (*1)                            |
|                                                                             | (of which) Revenue of the contribution to Basic Pension                        | •                                  | •                        | 23.1                  | (*2)                            |
| Expenditures<br>(adjusted financial items basis)                            | Total amount                                                                   | 49.3                               | 3.5                      | 25.1                  | 54.5                            |
|                                                                             | (of which) Benefit disbursements                                               | 29.2                               | 0.2                      | 24.7                  | 54.1                            |
|                                                                             | (of which) Contribution to Basic Pension                                       | 19.9                               | 3.2                      | •                     | (*2)                            |
|                                                                             | (of which) Benefits equivalent to Basic Pension (Subsidies from Basic Pension) | •                                  | •                        | 0.4                   | (*1)                            |
| Annual balance of revenues and expenditures excluding investment income (b) |                                                                                | 2.1                                | △ 0.2                    | △ 2.0                 | △ 0.1                           |
| Investment profit/loss (c)                                                  |                                                                                | 51.3                               | 2.3                      | 0.0                   | 53.6                            |
| Others (d)                                                                  |                                                                                | 0.0                                | 0.0                      | -                     | 0.1                             |
| Reserves at the fiscal year end (a + b + c + d)                             |                                                                                | 287.6                              | 12.5                     | 3.9                   | 304.0                           |
| Change in reserves from the previous fiscal year end                        |                                                                                | 53.5                               | 2.1                      | △ 2.0                 | 53.5                            |

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 plans (Subsidies from Basic Pension (\*1) JPY 0.4 trillion) and Contribution to Basic Pension (\*2) JPY 23.1 trillion) are excluded from both revenues and expenditures for the public pension plans as a whole.

Note 2: Whole EPI and public pension plans 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 Account of NP.

## 2. Evaluation of the actuarial status for the Public Pension Plans

(See page 294, 295 in the full text of the annual report)

The evaluation is not only based on a comparison of actual performances up to FY2023 with the assumptions and future projections of the FY2019 actuarial valuation, but also from the perspective of long-term financial equilibrium.

- The following matters were confirmed: the number of NP Category-1 insured persons continued to be lower than the future projections of the actuarial valuations; the number of insured persons for the whole EPI continued to exceed future projections; the performance of reserves exceeded the future projections in FY2023 because of high investment income; and the average life expectancy at the age of 65 in 2023 was lower than the high mortality assumptions in the 2017 estimates.\* In FY2023, the adjustment of benefit levels through modified indexation had a positive effect on pension financing, and it was confirmed that growth in real wages exceeded the growth of already awarded pensions for the first time since price indexation for already awarded pensions was introduced in the 2000 revision.
- However, it was confirmed that the total fertility rate from 2019 onward remained below the assumed medium fertility rate in the 2017 estimates, and in 2023, it fell below the assumed low fertility rate, and the real wage growth rate (relative to prices) was below the assumptions in both cases in the 2019 actuarial valuations.
- Should these deviations from future projections continue over the medium to long term, instead of temporarily, the financial impact on public pensions would be significant. For example, if the trend of the total fertility rate continues falling below the assumed medium fertility rate for the population projections over a prolonged period, the operation of the pension system will be greatly affected in the future.
- From the financial perspective 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.

\* Although a new population projection (estimated in April 2023) has already been published, we compared the actual fertility rate with the assumptions in the 2017 population projection (one of the bases of the 2019 actuarial valuation).

- \* The long-term financial equilibrium of public pension plans is achieved by the total financial resources of future contribution income, future national and local government subsidies etc. and current reserve, and future benefit disbursements.

### Conceptual diagram of the financial equilibrium of public pension plans

