

Outline of 2004 Pension Plan Revision

(tentative translation)

【 Basic issues to be solved after 2000 Pension Plan Revision 】

- Raising of the portion of the basic pension funded from tax revenues to half
- Lifting of the freeze on raising employee and national pension premiums
- Issues regarding women and pension

【 Social and economic changes after 2000 Pension Plan Revision 】

- Progressive aging and lower fertility rates (Population Projection 2002)
 - If the actual benefits are maintained, premiums would be raised to 25.9% (EP) and to 29,500 yen (NP)
- Further need for flexibility to meet diversification of the individual's lifestyle and working style



1 Establishment of Sustainable and Balanced Plan / Securing Confidence in the Plan

【 Raising of the Portion of the Basic Pension Funded from Tax Revenues to half 】

Initiated from FY 2004 and to be accomplished by FY 2009

- FY2004 : Increased tax revenues will be allocated from revision of pension taxation
- FY2005&2006 : The portion funded from tax revenues will be raised to appropriate level on the basis of economic and social movement after taking necessary measures for taxation system
- Around FY2007 : Securing compatibility with the governmental policy for management of economy and finance and taking into account the movement of total reform of social security system, the portion will be completely raised to half after tax reform for securing stable revenue

【 Financial Inspection 】

Inspection will be carried out at least every 5 years for the 100-year pension finance

【 Fixed premiums and automatic adjustment of benefits based on macroeconomic indexation 】

After fixing premium level, automatic adjustment system of benefits within the income will be introduced

- (Employees' Pension <EP>) raised by 0.354% per annum from October 2004
18.30% as fixed rate from FY 2017 on
- (National Pension <NP>) raised by 280 yen (monthly amount) per annum from April 2005
16,900 as fixed amount from FY 2017 on

Adjustment of pension benefits reflecting the increased capability of the society as a whole to contribute (macroeconomic indexation) (however, the nominal amount will be maintained as the lower end of adjustment)

- (Newly eligible pensioners) per-capita wage growth – indexation adjustment rate
- (Already eligible pensioners) price inflation – indexation adjustment rate
- * Indexation adjustment rate : rate of decline of contributors to public pensions + rate based on average life expectancy (0.3%) → Around 0.9% until FY 2025

To support the basic part of elderly people's life, the benefit level for an EP standard household shall be maintained at above 50% of average income of the active generation

- The benefit level will be automatically adjusted with the fixation of final EP premium rate at 18.30%
→ Income substitution rate will be 50.2% in a standard model pension (including a couple's basic pension) from 2023 on

2 Establishment of Pension Plan to Meet Diversification of the individual's lifestyle and working style

Revision of old-age pension for active employees

- Revision of the application of the old-age pension scheme on active employees who are 60-64 (abolition of the measures to cut 20% of pensions across the board)
- Benefit adjustment for EP of employees who are 70 and over (no contribution required)
- Introduction of deferred payment of old-age EP benefits for persons who are 65 and over

Application of EP to temporary workers

- In order to make EP as neutral as possible for choice of employment type, necessary measures will be taken based on the results of comprehensive examination done by 5 years after enforcement of 2004 Pension Plan Revision

Support for the healthy development of the next generation

- Extension of exemption from contribution of premiums for those taking childcare leave (until the child becomes 3 years old)
- Special measures for computation of benefits for those whose pensionable remuneration is reduced due to shorter working hours resulting from childcare (the previous pensionable remuneration applies)

Women and pension

System for division of pensions for Category III insured persons

- Basic awareness that premiums borne by an insured person with the dependent spouse are jointly borne
- In case where application of division is needed (e.g. divorce), a Category III insured person will be entitled to divide the half of EP corresponding to the insured period as Category III (after the enforcement)

Division of EP in case of divorce

- With the spouse's consent or a court decision, division of EP will be admitted in case of divorce (as regards the pensionable remuneration on which the computation of pension amount is based, the upper limit will be half of the total amount of remuneration of both parties)

Revision of the survivor's pension

- Provision of the full amount of old-age employees' pension plus survivor's pension as a difference of old-age employees' pension and the current survivor's pension
- Limited term of provision for widows (younger than 30) without children
- Additional benefits for middle-age and high-age widows will be a woman who is 40 on her husband's death

Improvement in disability pension

- Concurrent provision of disability basic pension and old-age employees' pension (a mechanism for reflecting the work done with disability on the pension plan)

- Reinforcement of measures for collection of national pension premiums (introduction of a system of cascade-type exemption based on income level, etc.)
- Framework for deepening understanding on pension systems ("Point System")
- Measures to accept registration for unregistered Category III persons (relief of unregistered period)

- Stabilization and improvement of corporate pensions (lifting of freeze on exempted contribution rates, special rules on dissolved funds, progress in portability, etc.)
- Revision of the system for management of pension funds (management with diversified investment, establishment of an independent administrative corporation for management of funds, etc.)