Chapter 1: Outline of public pensions

1. What are public pensions?

Public pensions are intended to provide income security in the event of old age, disability, or death. Currently, finance of these pensions take the inter-generational support framework through which contributions paid by current generations are applied to the pension benefits of those generations' senior citizens.

Based on the "Bestowal" pensions and government-enterprise mutual aid plans in ancient times, public pension plans have sequentially developed into a number of forms. Current public pensions are formed of the National Pension (Basic Pension) plans; the Employees' Pension Insurance (hereinafter referred to as "EPI"); and three mutual aid pension plans; the National Public Service Personnel Mutual Aid Association, Local Public Service Personnel Mutual Aid Association, and Mutual Aid Corporation for Private School Personnel (hereinafter, "NPSP," "LPSP," and "PSP," respectively). When the former Actuarial Subcommittee was established in the former advisory Council on Social Security in 1980, there were other plans that existed in addition to the five mentioned above. These were the Seamen's Insurance plans, the Public Enterprise Workers' Mutual Aid Association (consisting of the Japan National Railways Mutual Aid Association, the Japan Tobacco Mutual Aid Association, and the Nippon Telegraph and Telephone Mutual Aid Association; hereinafter, the "3 former MAAs"), and the Mutual Aid Association for Agricultural, Forestry and Fishery Organization Personnel (hereinafter, "AFF"). In the years leading up to the present time, all of these plans were integrated into EPI (in the case of Seamen's Insurance, only the non-occupational benefits component was integrated into EPI). Furthermore, although different contribution rates are established for a number of groups within EPI, NPSP, and LPSP, these rates are currently going through the process of being unified.

This report primarily deals at developments that have occurred since FY1995, with the 3 former MAAs and former AFF (which were integrated into EPI in later years) being largely included in EPI. It should be noted that all pension plans other than the National Pension (NP) plan are referred to generally as "employee pension plans."

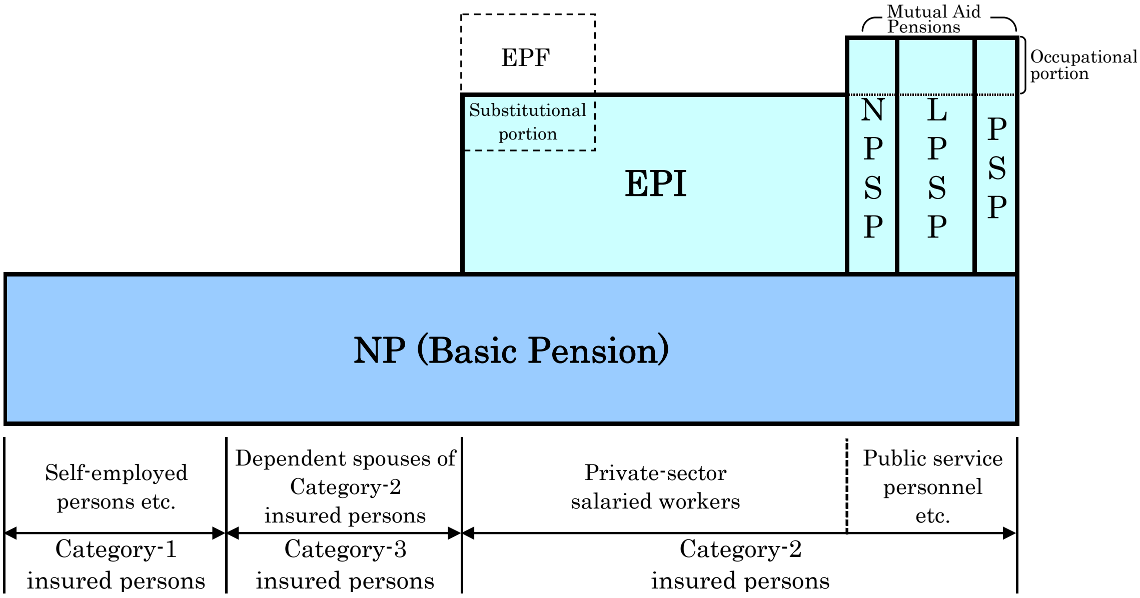
2. Pension framework (relationship between National Pension and employee pension plans)

A chart showing the public pension framework is presented on the following page (Figure 1-2-1).

Of all public pensions, NP is a plan of "Basic Pension" that is applied commonly to all Japan's residents. Insured persons in each employee pension plan are considered National Pension Category-2 insured persons[note], and their dependent spouses are considered Category-3 insured persons (limited to persons aged 20 to 59). People that are neither Category-2 nor Category-3 insured persons (e.g., self-employed people and their spouses, family workers, unemployed persons etc. that are aged between 20 and 59) are considered Category-1 insured persons. In principal, when an insured person reaches and surpasses the age of 65, he or she will receive Old-Age Basic Pension. Furthermore, if a person has insured person's period of employee pension plans, he/she will also receive employee pension in addition to the Basic Pension when he/she reaches pensionable age. It should be mentioned that, under the NP, individual benefits referred to as "addition pensions" and "widow's pensions" are paid in addition to the Basic Pension.

Note: For people aged 65 or older, this is limited to people who are not old-age pension beneficiaries.

[Figure 1-2-1: Public pension framework]



Note: The EPF pays a portion of the Old-Age Employees' Pension on behalf of the government ("substitutional portion" in the chart).

3. Promotion of unification

Efforts are currently underway to promote unification of public pensions. Such efforts are in response to the changing employment structure and advancing maturity of plans, and are intended to bring stability and equitableness to public pensions ("Promoting Unification of Public Pension Plans," approved in a Cabinet council held 16 March 2001). Specifically, formation of an integrated framework is being promoted in this approval by expanding financial units and leveling expenditure burden for common part. The aforementioned integration of pension plans that have occurred up to this point can be described as being part of this process. Furthermore, in the actuarial valuation of 2004, unification of financial units in NPSP and LPSP is pursued to set contribution rate and introduce the financial adjustment scheme in accordance with the above-mentioned Cabinet approval. In addition, in PSP the contribution rate would be raised by bringing it forward ahead of schedule.

In order to examine ways of resolving issues that arise when promoting this kind of unification in employee pension plans, a liaison meeting was set up that consists of government ministries and agencies concerned with unification. This meeting is now vigorously examining these issues. Meanwhile, discussions on the future course of the pension system are being held in the National Diet and within each political party. These discussions are coinciding with debate on reform of the social security and public service personnel systems.