Overview of Pension System 1

General Affairs Division, Pension Bureau, Ministry of Health, Labour and Welfare
1) Pension makes up 70% of aged population’s household income

- Public pension: 2,116,000 yen (70.8%)
- Working income: 505,000 yen (16.9%)
- Assets income: 176,000 yen (5.9%)
- Allowance, corporate pension, private pension and other incomes: 166,600 yen (5.5%)
- Social security benefits other than public pension: 25,000 yen (0.8%)

Average income per aged population household: 2,989,000 yen

Source: National Livelihood Survey 2008 (MHLW)

2) Pension is the only source of income for 60% of all aged population households

Proportion of public pension in the total household income:
- Below 20%: 2.8%
- 20% to 39%: 5.9%
- 40% to 59%: 8.2%
- 60% to 79%: 10.0%
- 80% to 99%: 11.8%
- 61.2%: Public pension is the only source of income

Source: National Livelihood Survey 2008 (MHLW)
3) In the aged life design, 70% of the population depend on a pension.

4) One out of every four people receives a pension.

Source: poll on pension system (Cabinet Office, 2003)

Source: overview of social insurance service (Social Insurance Agency)
5) Support to local economies
- Pension supports 20% of Consumption of Households in some areas

Seven prefectures with the largest pension ratio in Prefectural Income

<table>
<thead>
<tr>
<th>Prefecture (Population aging rate)</th>
<th>Pension ratio in Prefectural Income</th>
<th>Pension ratio in Consumption of Households</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shimane (27.1%)</td>
<td>15.2%</td>
<td>22.4%</td>
</tr>
<tr>
<td>Kochi (25.9%)</td>
<td>15.4%</td>
<td>18.4%</td>
</tr>
<tr>
<td>Ehime (24.0%)</td>
<td>14.5%</td>
<td>20.8%</td>
</tr>
<tr>
<td>Yamaguchi (25.0%)</td>
<td>13.7%</td>
<td>22.7%</td>
</tr>
<tr>
<td>Nagasaki (23.6%)</td>
<td>14.2%</td>
<td>21.0%</td>
</tr>
<tr>
<td>Tottori (24.1%)</td>
<td>14.7%</td>
<td>18.1%</td>
</tr>
<tr>
<td>Okayama (22.4%)</td>
<td>13.7%</td>
<td>19.8%</td>
</tr>
</tbody>
</table>

6) Total pension value reaches 47.7 trillion yen, making up 12.7% of National Income

(trillion yen)

Source: overview of social insurance service (Social Insurance Agency)
Meaning of Public Pension

The public pension system is aimed at making up for a decrease in working income due to aging, disability, bereavement or other reasons, thereby securing the lives of the aged, disabled and bereaved in terms of income.
Basic concept of public pension

Public pension is …
A scheme for inter-generation support
= Support by younger generations
= Socialized family support
= Financial management based on premium imposition
What is inter-generation support?
## Strengths and weaknesses of inter-generation support

### Strengths
- Capable of preparing for unexpected risks
  - Changes in living standards (wage and prices)
  - Length of aged life
- Income transfer scheme operated under the government’s responsibility
  = No risk of collapse
- There is also a disabled pension and bereaved family pension

### Weaknesses
- Lower birth rate & aging population
- Must review the burden on supporting generations and the benefit to supported generations
Time length from enrollment in the pension system to becoming a beneficiary

**Person who became 65 years old in 2001**

45 years ago

(20 years old) → (40 years old) → (65 years old) → (until death)

Average monthly salary of office workers

approx. 20,000 yen  →  approx. 130,000 yen  →  approx. 300,000 yen

Large changes in the economy and society

1956  →  1976  →  2001

* Persons who are 65 years old at present have paid part of their income as a pension premium, since the era when the average salary was 20,000 yen. Based on these payment records, they are able to receive a pension in proportion to the era when the average salary is 300,000 yen for their lifetime (wage and prices sliding scale).

**Person who became 20 years old in 2001**

1976

Preparations for income during old age will be meaningless unless the pension is in proportion to the living standards in that unforeseeable future.

Large changes in the economy and society

* Unforeseeable changes in society and economy and the person’s life span

45 years later

(20 years old) → (65 years old)

60 years later

(20 years old) → (65 years old) → (80 years old)

* What age a person will live to is unforeseeable.

* Disabled pension and bereaved family pension may become necessary before the person becomes aged.
Significance and roles of public pension

1) For the aged generations:
   Prevents fall into poverty
   Provides basic income during old age

2) For the working generations:
   Frees them from the duty of supporting their parents

3) For companies:
   Enables employees to concentrate on work
   Supports aged population’s consumption

4) For society:
   Ensures stability of society and economy
Inter-generation support (imposition method) vs. funding method

A “funding method” refers to a system where premiums are refunded to payers with management interests (similar to savings and private pensions)

• Can it respond to changes in living standards?
• What will be the difference to savings and private pensions?
• Who will take responsibility for management risks?
• Will a shift from the imposition method to the funding method be understood?

= Occurrence of “double payers*”

* Generations who must pay both inter-generation premium before the shift and own premium after the shift

→ Public pension systems in advanced countries adopt the imposition method.

Private pensions have the roles of complimenting a public pension and satisfying diverse needs during old age.
Tax method vs. social insurance method

Major issues

• Underlying concepts (philosophies and principles)
• Relationship between payment and coverage
• Relationship to welfare benefits
• How to ensure funding

→ Reflect in specific system design
    Benefit amount, income limitation, collection method, etc.
Japanese Universal Pension system

Members

- Defined-Contribution Pension (Individual type)
  - Members 93,000
    - Mar. 31, '08
- Defined-Contribution Pension (corporate type)
  - Members 2,710,000
    - Mar. 31, '08
- Mutual Aid Association Pension
  - Members 4,510,000
- Employees’ Pension Fund
  - Members 650,000
    - Mar. 31, '08
- Defined-Benefit Corporate Pension
  - Members 4,800,000
    - Apr. 1, '08
  - Members 5,060,000
    - Mar. 31, '08
  - Members 4,410,000
    - Mar. 31, '08
- Tax-Qualified Pension Plan
  - Members 2,710,000
    - Mar. 31, '08

National Pension (Basic Pension)

- Defined-Contribution Pension (Individual type)
  - Members 10,630,000
- Defined-Contribution Pension (corporate type)
  - Members 20,350,000
- Mutual Aid Association Pension
  - Members 39,080,000
- Employees’ Pension Fund
  - Members 650,000
    - Mar. 31, '08
- Defined-Benefit Corporate Pension
  - Members 4,800,000
    - Apr. 1, '08
  - Members 5,060,000
    - Mar. 31, '08
  - Members 4,410,000
    - Mar. 31, '08
- Tax-Qualified Pension Plan
  - Members 2,710,000
    - Mar. 31, '08

(Figures are as of March 31, 2008, unless otherwise indicated.)

- Dependent spouses of Category 2 insured persons
  - 10,630,000
- Self employed persons, etc.
  - 20,350,000
- Private salaried workers
  - 39,080,000
- Public officers, etc.
  - 70,070,000

Category -3 insured persons

Category -1 insured persons

Category -2 insured persons

*(Members of the Employees’ Pension Fund, Defined-Benefit Corporate Pension, Tax-Qualified Pension Plan and Private School Mutual Aid Pension can also join the Defined- Contribution Pension (corporate type).)

*(Members of the national pension fund can also join the defined contribution pension (individual type).)

*(The Tax-Qualified Pension Plan will be taken over by other corporate pension plans, etc. by the end of FY2011.)*
History and structure of Japanese pension system

<table>
<thead>
<tr>
<th>Payment</th>
<th>Since June 1942</th>
<th>Since April 1961</th>
<th>Since April 1986</th>
</tr>
</thead>
<tbody>
<tr>
<td>Self employed persons Agricultural workers</td>
<td>Fixed + proportional</td>
<td>Fixed</td>
<td>Fixed</td>
</tr>
<tr>
<td>Private company employees</td>
<td>Proportional</td>
<td>Fixed + proportional</td>
<td>Fixed + proportional</td>
</tr>
<tr>
<td>Public servants</td>
<td></td>
<td>Proportional</td>
<td>Proportional</td>
</tr>
</tbody>
</table>

- Employees’ pension insurance
- National Pension
- Public pension
- Employees’ pension
- Mutual aid pension
- Basic pension + Employees’ pension, Mutual aid pension

<table>
<thead>
<tr>
<th>Premium</th>
<th>Since June 1942</th>
<th>Since April 1961</th>
<th>Since April 1986</th>
</tr>
</thead>
<tbody>
<tr>
<td>Self employed persons Agricultural workers</td>
<td>Proportional to salary</td>
<td>Proportional to salary</td>
<td>Proportional to salary</td>
</tr>
<tr>
<td>Private company employees</td>
<td>No coverage</td>
<td>Fixed</td>
<td>Fixed</td>
</tr>
<tr>
<td>Public servants</td>
<td></td>
<td>Proportional to salary</td>
<td>Proportional to salary</td>
</tr>
</tbody>
</table>

Reference: Transition of employees in each industry type

<table>
<thead>
<tr>
<th>Industry type</th>
<th>1960 (%)</th>
<th>1985 (%)</th>
<th>2000 (vs. 1960)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary industry</td>
<td>32.7</td>
<td>9.3</td>
<td>5.0 (-27.7%)</td>
</tr>
<tr>
<td>Secondary industry</td>
<td>29.1</td>
<td>33.1</td>
<td>29.5 (+0.4%)</td>
</tr>
<tr>
<td>Tertiary industry</td>
<td>38.2</td>
<td>57.3</td>
<td>64.3 (+26.1%)</td>
</tr>
</tbody>
</table>
## Pension payment and premium status in FY2009

### Pension payment

<table>
<thead>
<tr>
<th>Pension Type</th>
<th>FY2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Pension</td>
<td></td>
</tr>
<tr>
<td>Basic Pension for the aged: one person</td>
<td>66,008 yen</td>
</tr>
<tr>
<td>National Pension</td>
<td></td>
</tr>
<tr>
<td>Basic Pension for the aged: a married couple</td>
<td>132,016 yen</td>
</tr>
<tr>
<td>Employees’ Pension</td>
<td></td>
</tr>
<tr>
<td>Standard pension payment including the and the Basic Pension for a married couple</td>
<td>232,592 yen</td>
</tr>
</tbody>
</table>

Note: The value for the employees’ pension assumes that the husband worked for 40 years at an average income level (average standard remuneration: 360,000 yen), throughout which time his wife was a full-time homemaker (a new household payment criteria).

### Premium

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>National Pension</td>
<td></td>
<td>FY2009</td>
<td></td>
</tr>
<tr>
<td>Employees’ Pension</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
People

○ Public pension members (as of the end of FY2007):
  70,070,000
  - National Pension - Category 1 insured persons: 20,350,000
  - National Pension - Category 2 insured persons: 39,080,000
  - National Pension - Category 3 insured persons: 10,630,000

○ Beneficiaries (as of the end of FY2007)
  34,800,000 (one out of every four people)
  - Basic Pension (after paying premium for 40 years)
    Monthly payment: 66,008 yen
  - Employees’ Pension (standard payment for a married couple)
    Monthly payment: 232,592 yen

○ Public pension makes up approx. 70% of aged population’s household income
  Proportion of public pension in the aged population’s household income (2,989,000 yen):
  70.8% (2,116,000 yen)

(National Livelihood Survey 2008)

Premium

28.2 trillion yen
(approx. 8% of Japanese National Income)

(FY2007)

National Pension premium: 14,660 yen (since Apr. 2009)
Employees’ Pension premium ratio: 15.35% (since Sept. 2008)
  Final value: 18.3% (from Sept. 2017)

Benefit

44.7 trillion yen
(public pension paid)

(FY2007)

cf. General expenditures of Japan
  (Budget FY2008):
  47.3 trillion yen

Government contribution to the pension system
  (FY2007)
  7.7 trillion yen

Pension plans

National Pension
Employees’ Pension
Mutual Aid Pension

Reserved pension assets for the Employees’ pension and National Pension
  (as of the end of FY2008)
  123.8 trillion yen
  (current value)

National government, etc.
Overview of the Initial General Account Budget FY2009

**General account expenditure**
- Social security-related expenses (24.8 trillion yen), National Debt Service (20.2 trillion yen) and Local Allocation Tax Grants, etc. (16.6 trillion yen) occupy approx. 70% of total expenditures.

**General account revenue**
- Tax and Stamp Revenues only make up little more than 50% of total.
- Of the remaining, some 33 trillion yen (37.6%) depends on revenues from Government bonds.
Progressively lower birthrate and aging population

Transition of the number of births and the Total Fertility Rate (TFR)

Source: Vital Statistics, Statistics and Information Department, Minister's Secretariat, Ministry of Health, Labour and Welfare
Note: The values for 2007 are approximates.

Transition and outlook of the proportion of population aged 65 or older, etc.

Source: Compiled by the Office of the Director for Policy Evaluation, Attached to the Director-General for Policy Planning and Evaluation, from the Census and population estimates by the Statistics Bureau, Ministry of Internal Affairs and Communications; and Japan’s estimated future population (as of Dec. 2006) by the National Institute of Population and Social Security Research
Transition of Total Fertility Rate and hypothetic values for estimated future population (estimated in 2006)

<table>
<thead>
<tr>
<th>Estimate Type</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2055</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medium level estimate</td>
<td>1.26</td>
<td>1.29</td>
<td>1.25</td>
<td>1.23</td>
<td>1.26</td>
</tr>
<tr>
<td>High level estimate</td>
<td>1.32</td>
<td>1.32</td>
<td>1.32</td>
<td>1.32</td>
<td>1.55</td>
</tr>
<tr>
<td>Low level estimate</td>
<td>1.27</td>
<td>1.16</td>
<td>1.12</td>
<td>1.06</td>
<td></td>
</tr>
<tr>
<td>Previous estimate (Medium level, 2002)</td>
<td>1.31</td>
<td>1.31</td>
<td>1.31</td>
<td>1.31</td>
<td>(2050)</td>
</tr>
<tr>
<td>Actual value</td>
<td>1.26</td>
<td>1.32</td>
<td>1.34</td>
<td>1.37</td>
<td></td>
</tr>
</tbody>
</table>

* Precondition for financial recalculation 2004

Lowest value for the medium level estimate 1.213 (2013)
Previous estimate (Medium level, 2002) (Precondition for financial recalculation 2004)
In the pension system revision of 2004, a new framework of pension finance was developed through a review of both the payment and coverage aspects, in order to establish a sustainable and secure pension system that can support the progressively lower birthrate and aging population in the future.

* Financial review is required by law every five years (next: 2009) (for developing a long-term financial forecast, and verifying the framework set in the 2004 revision).

### Framework of the revision in 2004

1. **Raising premium rates with a ceiling**
   - Fix the premium rates for FY2017 onwards (*the premium rates and their increasing process are provided by law*):
     - Employees’ pension: 18.30% (shared equally by the employee and the employer) (raised by 0.354% annually, starting Oct. 2004)
     - National Pension: 16,900 yen (raised by 280 yen annually, starting Apr. 2005) (from the rate in 2004)
   - Reference: Present premium rates (as of June 2009): Employees’ pension: 15.35%, National Pension Plan: 14,660 yen

2. **Introducing an automatic adjustment system (in proportion to the macro economy) for the payment level within the range of coverage**
   - Adjust the pension payment levels in line with the decrease in working generations. The standard pension payment level should exceed 50% of the average income of working salaried worker households at the point of payment start, regardless of the progressively lower birthrate.
   - * Result of financial review in 2009 (published on Feb. 23): 62.3% (FY2009) → 50.1% (FY2038 onwards)
   - Reference: Present pension payments (as of FY2009): Basic pension (after paying premium for 40 years): monthly payment: 66,008 yen; Employees’ pension (standard payment for a married couple): monthly payment: 232,592 yen

3. **Utilizing reserve fund**
   - Financial balance is to be established within approximately 100 years, after which the amount worth 12 months of premium is to be reserved, which should be utilized for payment to later generations.

4. **Increasing the government’s contribution rate for the basic pension to 50%**
   - Following a fundamental tax system reform to ensure a stable resource for required funds, an increase in the contribution rate to 50% by 2009 is provided by law.

---

In order to establish a sustainable pension system, all of Frames 1 to 4 must be put into operation. Increasing the government’s contribution rate to 50% is the final remaining challenge.