

## **Chapter 4 Public Pension System Issues**

### **Overview of the Pension System Reforms**

**(Act of Partial Revision of the National Pension Act, etc.)**

#### **The National Pension and the Employees' Pension**

### **I. Basic Concept for Reform**

#### **1. Building a sustainable system matched with socio-economy and ensuring reliability for the system**

- Preventing future working generations from excessive burdens and ensuring appropriate benefit levels of pension for elderly people
- Building a sustainable system that can flexibly match with socio-economic fluctuations and that does not need frequent institutional reforms

#### **2. Building a system that matches with diverse patterns of life and work**

- A new system needs a flexible institutional mechanism which allows diverse patterns of life and work and which assesses diverse patterns of working contribution to the pension system.

### **II. Prospects for Benefits and Burdens**

#### **1. Raising the national subsidy of the basic pension**

- In principle, the national subsidy proportion of the basic pension is raised to 1/2. (The raise begins in fiscal 2004, which will continue into an appropriate level in fiscal 2005 and 2006, and will complete in fiscal 2009. The necessary provisions are defined in supplementary regulations.)

#### **2. Enforcing financial verification**

- The current condition of pension finance and its 100-year-long financial balance period will be verified at least once every five years.

### **3. Introducing the premium level fixed system**

(Introduction of the premium level fixed system)

- The fixed system will have a mechanism that automatically adjusts benefit levels within the revenue from premiums after future premium levels for the Employees' Pension and the National Pension are fixed.

(Premium for the Employees' Pension)

- The premium rate for the Employees' Pension is raised by 0.354% every year from October 2004, which will be set to 18.30% in fiscal 2017 and onward.

(Premium of the National Pension)

- The monthly premium for the National Pension is raised by ¥280 (value for fiscal 2004) every year from April 2005, which will be fixed at ¥16,900 (value for fiscal 2004) in fiscal 2017 and onward.

(Introduction of macro-economic indexation)

- The growth of the entire social premium bearing capacities is reflected in the pension revision rate to adjust benefit levels (macro-economic indexation). (However, the lower limit is adjusted up to the nominal amount, which remains fixed.)

[Macro-economic indexation]

- Revision rate of new beneficiaries: Growth rate of after-tax income - Indexation adjustment rate
- Revision rate of existing beneficiaries: Growth rate of prices - Indexation adjustment rate
  - \* Indexation adjustment rate: Decrease in the number of insured persons of the entire public pension + Fixed rate after the growth rate of the average pension benefit period (average life expectancy) is considered
- The benefit level for a household of the standard Employees' Pension (including the basic pension of a husband & wife couple) will exceed at least 50% of the average income of working generations.

### **III. Introducing Systems That Meet with Diverse Patterns of Life and Work**

#### **1. Reviewing the old-age pension system for active workers**

- Concerning the old-age pension system for insured employees in their early 60s, the 20% benefit suspension during the working period is discontinued.
- Concerning Employees' Pension benefit of insured employees aged 70 years old or older, when the total of bonuses and the Old-Age Employees' Pension exceeds the average income of working male insured employees, like the insured employees in their late 60s, the benefit of all or part of the Old-Age Employees' Pension is discontinued. (But no insurance premium is required.)
- The benefit of the Old-Age Employees' Pension for persons aged 65 or older is postponed.

#### **2. Expanding the application of Employees' Pension to part-time workers**

- To meet with increasing working patterns, the revised pension system will be reviewed after five years of enforcement, and necessary measures will be taken accordingly. The review will be made to reinforce the pension security of insured employees and to promote fair burdens among corporations while socio-economic conditions, impacts on employment and on corporations for which many part-time workers work are taken into consideration. The revised pension system will have a mechanism neutral to corporations and employment patterns of insured employees as much as possible.

#### **3. Boosting next-generation fosterage support measures**

- Until a baby grows to three years old,
  - ① Premiums are exempted during the child-care leave period.
  - ② When the standard remuneration is lowered due to a shorter working period, a measure is taken to maintain the amount of future pension based on the standard remuneration before the decrease.

#### **4. Women and pension**

- (1) Division of the Employees' Pension for the period of Category-3 insured person
  - The premiums borne by an insured person who has a dependent spouse are basically regarded as though the insured person and the dependent spouse had jointly borne the premiums.
  - For the period of Category-3 insured person (period after introduction), when No. 3 insured person divorces the spouse or when a situation takes place that requires the division of pension according to an ordinance of the Ministry of Health, Labour and Welfare, the Employees' Pension (in the premium contribution record) of the spouse may be divided into half.
- (2) Division of the Employees' Pension upon divorce
  - The Employees' Pension of a divorced couple may be divided when the divorced spouse agrees to do so or when the court decides to do so (up to half of the pension in the premium contribution record for the period of marriage).
- (3) Reviewing the Survivors' Pension system
  - A mechanism will be introduced so that the difference between the existing survivors' benefits and the Employees' Pension benefits is provided as Survivors' Employees' Pension, in addition to the full benefit of Old-Age Employees' Pension.
  - Providing the Survivors' Employees' Pension is limited to five years for the surviving spouse of less than 30 years old with no children. The target for providing extra benefits for a middle- and old-age widow is applied to a widow who was 40 years old or older when her husband died.

#### **5. Improving the Disability Pension**

- The Disability Basic Pension and the Old-age Employees' Pension or the Survivors' Employees' Pension may be provided concurrently.

## **IV. Other Revised Points**

### **1. Reinforcing measures to collect premiums for the National Pension**

- Institutional measures are introduced to collect premiums for the National Pension, including the enforcement of a multiple-stage exemption system according to income, contribution moratorium for youth who are facing difficulty for employment opportunity, easy access to necessary income information from municipalities, and other measures.

### **2. Working on the promotion for the understanding of the pension system**

- Individual pension information, such as premium contribution record and the amount of pension to be provided in the future, is reported to insured persons periodically.

### **3. Special notification measure for Category-3 insured persons**

- The revised pension system allows Category-3 insured persons in the past to notify the component authorities about their non-reporting periods. The period to notify shall fall into the period that insured persons already contributed premiums.

### **4. Canceling the price indexation special measure (1.7% portion)**

- The price indexation special measure (1.7% portion) for the past three years will be cancelled under rising price circumstances after fiscal 2005.

### **5. Revising the special measure pension of the former Mutual Aid Associations of Agriculture, Forestry and Fishery Corporation Personnel**

- The special measure pension of the former Mutual Aid Associations of Agriculture, Forestry and Fishery Corporation Personnel will be revised so that the pension system reflects falling price conditions in the amount of pension.