

Chapter 1

Reviewing the administration of Ministry of Health, Labour and Welfare

Reviewing how the Ministry has lost people's reliance, it is apparent that the Ministry has focused on planning systems, but has not paid enough attention to analysis of the actual conditions, appropriate management and necessary improvement prior to establishment and revision of systems.

Primarily, both planning and operating systems are inseparable and, therefore, both of them must be equally considered. We deeply regret that we did not appropriately address the issues. It has been criticized that the Ministry officials in charge of management and operation of the systems lack professionalism, responsibility and fundamental knowledge of their duties.

In this chapter, we take up issues on the former Social Insurance Agency including the pension records and drug-induced hepatitis, one of the recent regrettable health hazard cases caused by contaminated drugs, which have left serious problems of the policy and the data management.

Section 1

Issues of Former Social Insurance Agency

1 Pension record problem

Under the Japan's pension system, the people pay specific sum of premiums in order to receive benefits and the benefits are calculated mainly on the basis of the periods that they have paid premiums.

Therefore, it is needed to manage the records such as the payment period of each beneficiary and that of each plan holder in order to provide benefits appropriately.

However, complaints were already made 50 years ago by the then Administrative Management Agency about the inappropriate management of the records. (see 4 - (3) in the Section 1).

Also, the way of managing pension records had been transferred gradually from the paper-based to an online system.

As for the Employees' Pension Insurance, it had been manually recorded in the books since June 1942 but also had started managing them using magnetic tape since 1955. Then, the integrated online system management started in February 1986.

As for the National Pension, from April 1961, we kept the records manually, and started the magnetic tape management system in 1965, and finally introduced the integrated online system

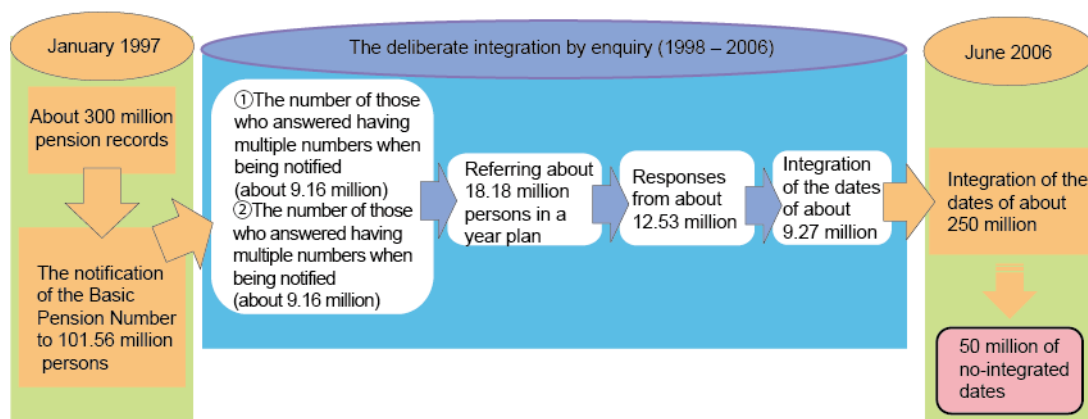
in February 1984.

There were some cases that the records were not transferred accurately to the computer system from the books.

Moreover, until 1996, some came to have more than two different numbers such as the number for the National Pension and another for the Employee's Pension Insurance after they changed their pension plan due to job change, marriage or retirement because we kept their pension records individually by pension systems that they were in. As a result of this, three-hundred-million pension records existed, which far exceeded the population of Japan.

From January 1997, the system has been changed to manage pension records by using the unified number, and the Basic Pension Number, one for each, was introduced. We worked on integration of the records by referring to those who were found in the identifying process including investigation based on notification from plan holders, by the name-listing of the insured (by matching of three record items-name, gender and date of birth) and by ID confirmation at the time of claiming pensions, but about five thousands records did not match with any Basic Pension Numbers as of June 2006. (Chart 1-1-1)

Chart 1-1-1 The working process of the integration to the Basic Pension Number



By such errors of pension records, some cannot be provided with benefits that they are eligible to receive.

Since 2007, this issue has been reported widely as the “missing pension”. As further problems were disclosed, the criticism grew. Those issues caused concern about the pension plan and distrust of the Ministry of Health, Labour and Welfare and that of the former Social Insurance Agency, resulting that the Ministry and the Agency lost credibility among the people.

(Inspection by the Verification Committee for Pension Record Problem)

In June 2007, in order to inspect and verify the background, causes of the pension scandal and who is responsible for these issues, "Verification Committee for Pension Record Problem" ,composed of external experts under the Minister for Internal Affairs and Communications who holds jurisdiction over the administrative evaluation and monitoring, was established. The Committee completed the verification report on October 31, 2007.

In the report, indicating that the root cause of the pension scandal resulted from the fundamental stance of the Ministry and the former Social Insurance Agency on the management of the pension records, the committee revealed the reason why there were about 50 million unidentified records, and particular points of the problem-causing pension record management system and its paperwork, and organizational problems which had helped those issues worsened and the background of the pension scandal. (Chart 1-1-2)

(Inspection on the Retroactive Adjustment of the Standard Remuneration by the Investigation Commission)

In August 2007, record recovery was mediated first time by the Third-Party Committee to Check Pension Records, saying that there is no reasonable explanation to adjust the standard remuneration retroactively. After that, as the similar mediation for retroactive adjustment of the standard remuneration and that of the expiry date of qualification recurred, the former Social Insurance Agency investigated into them to know the fact, and then the case was found in the result of the investigation published in September 2008 that the employees of the Agency apparently knew that the handling they conducted was against the fact.(Chart 1-1-3)

On the basis of such situations, "the Investigation Commission on the Retroactive Adjustment of Standard Remuneration" under the direct control of the Minister of Health, Labour and Welfare was taken place, and on 28 November 2008, the reports were completed. In the reports, each background and the reasons why inappropriate retroactive revision had been made in the Ministry of Health, Labour and Welfare, the former Social Insurance Agency, the former Social Insurance Bureau and the former Social Insurance Office were analyzed, and the reports showed the issues on the systems and obstacles to improve and supervise the services.

Chart 1-1-2 The report submitted by the Inspection Committee on Pension Record Problems (Overview) - October 2007 -

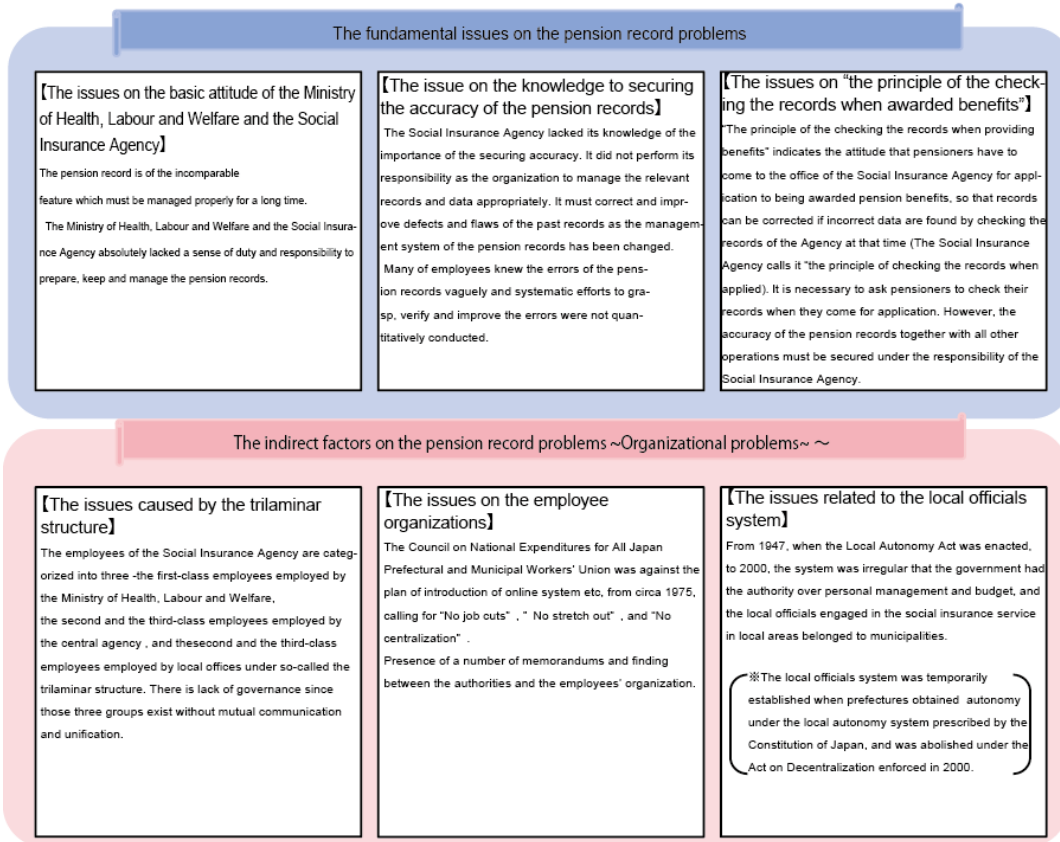
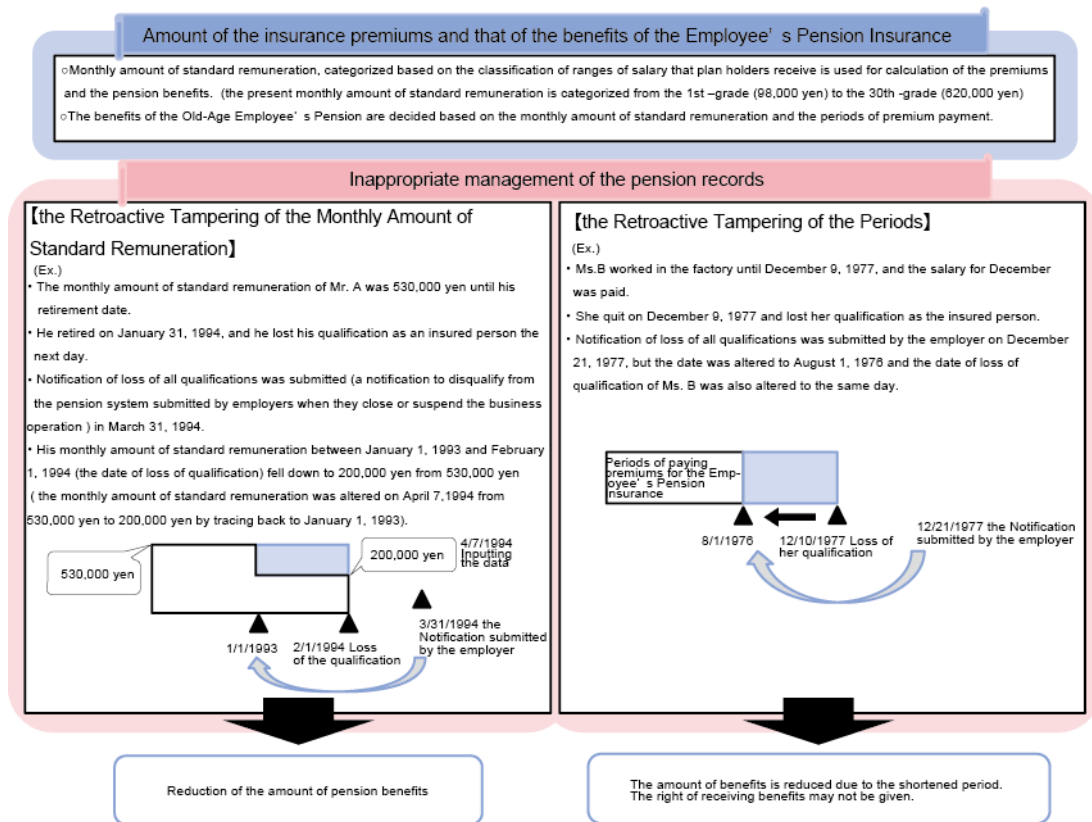


Chart 1-1-3 About inappropriate management of the records of the Employee' s Pension Insurance (the Retroactive tampering with the monthly amount of standard remuneration etc.)



2 Scandals of Employees of the Former Social Insurance Agency (Reference of personal informational in the pension records for unofficial purposes)

Since 2004, as scandals caused by employees of the former Social Insurance Agency were reported, people's reliance upon the Ministry of Health, Labour and Welfare and the former Social Insurance bureau were considerably were impaired.

In each case, those who were responsible for the part of the issues have been punished and we have taken preventive measures. We also found that those issues were not only of employees but also resulted from structural issues of the former Social Insurance Agency while each case was investigated and verified, and that prompted it to be abolished.

Main issues so far are as follows.

(1) Reference of personal information in the pension records for unofficial purposes

In March 2004, since it was reported that personal information such as the unpaid premiums of the National Pension Plan kept by the former Social Insurance Agency were leaked, we implemented investigation into the facts of the case.

As a result of the investigation, it came to light that a lot of employees had referred the personal information, and many of them and the staff in charge of the system administration were punished. (disciplinary measures to 973 employees)

Afterwards, the Agency clarified the responsibility of the personal information management of the Pension Plan and reinforced supervision over what information was accessed.

(2) Bribe cases and receipt of editor fee, etc

In September 2004, a former director of the former Social Insurance Agency was arrested and accused for suspicion of bribe from suppliers of cash registers. (ruled guilty for bribery in January 2005)

Besides, it also turned out that a number of employees received midyear or year-end gifts from the same suppliers and played golf and traveled with them.

Moreover, it came to light that some employees received a large amount of supervising fee on a large quantity of books purchased by the former Social Insurance Agency by using financial resources from collected pension premiums.

Investigation into the actual conditions in the Ministry of Health, Labour and Welfare clarified that in the most of the cases they received a constant amount of supervising fee on sales regardless of the quantity of work, and that publications that supervising fee was paid for were purchased as public spending. Those facts made people's distrust increase. As for those issues, a number of employees including the arrested former director (disciplinary dismissal) were punished.

Besides, the examination on procurement needs and contract methods were intensified by establishing "the Social Insurance Agency Procurement Committee" and the internal check system was reinforced by establishing "the Legal Compliance Committee".

Moreover, as for the supervising fee issues, part of senior officials' salary was voluntarily returned in addition to punishment to employees implicated in the case.

(3) Illegal paperwork such as exemption of the National Pension, etc

From March 2006, as for the procedure of such as premium exemption approval of the National Pension Plan, it was turned out that the former Social Insurance Office approved exemption without applications of plan holders, which was against the provision of the National Pension Law.

Furthermore, every time the former Social Insurance Agency investigated into the law violation cases, the number of offices that carried out inappropriate procedure and that of reports on the cases was increased and modified, leading up to people's distrust of the

Agency.

As the background of inappropriate procedure, it was clarified that many of employees conducted the operation against the law in order to achieve their objective of the payment rate. This fact shows that they lacked responsibility for compliance as the employees of the Ministry which administers the National Pension System under the law.

Also, it was exposed that some bureaus and offices attempted to hide the fact, and the order as an administrative organ was not functioned.

The committee established under the leadership of the Parliamentary Secretary for Health, Labour and Welfare verified the case, and punished many of employees and supervisors who were implicated in inappropriate clerical work in August 2006.

(4) Duty violations such as no permission work as full-time officials for the Employee Organization

In the investigation into the duty violations conducted in the former Social Insurance Agency in request of the Council of Pension Affairs and Organization Reform (see the Section 1-1 in the Chapter 2 on 17p) in November 2007, it came to light that many of employees violated the law such as no permission work as full-time officials for the Employee Organization (working entirely for the Employees Organization without the permission from the Secretary of the Social Insurance Agency with getting salary as a government official).

In the background of this issue, there was an irregular system that the government had the authority over personal management and budget, and governors had the authority to command duties under the system of local officials lasted long from 1947 to 1960. Therefore, the separate managements could not be performed well, and the system of local officials was abolished in 2000. Although that were integrated into the government authority, it is thought that inappropriate management still has remained from habit

It is thought that the Union aimed to acquire better deals for their employees that led to irresponsibility for their duties, while the management responsible for coping with the Employee Organization did not take enough measures against such cases and efforts to establish employees' discipline.

In such situation, we have a conclusion that cozy relations lacking responsibility were built, and the task of coping with the Employee Organization of each region was left to the local organs and senior officials from the region, and "No permission work as full-time officials for the Employee Organization" was accepted.

As for those issues, the Ministry of Health, Labour and Welfare charged employees with no permission work and employees who were in the accounting section in charge of salary

and were involved in this issue. Although the indictment was suspended, many including above-mentioned employees were punished. (disciplinary dismissal to 43 employees)

3 Issues on the Business of the Pension and Welfare Service

It has been criticized that the pension premiums are wasted for the services of the pension and welfare facilities including establishing and operating the Koseinenkin Hall which are to be streamlined by the end of September in 2010, and “the Pension Welfare Public Service Project”, including the large-scale recreation base, the ‘Green Pia’, operated by the former Pension Welfare Service Public Corporation.

“The Pension Welfare Public Service Project” such as the service of pension and welfare facilities, the Green Pia business was run so as to improve the welfare services for the insured who were obliged to pay premiums for a long time before getting the right to receive the pension under “the former Employee Pension Insurance Law, Article 79” and “the former National Pension Law, Article 74”

With this situation, the population has been rapidly aging, and people started worrying about the limit of the benefit burden on the next working generation shoulders. When revising the Pension System in 2004. The reform of the pension system was progressed in the severer financial condition, but the all pension welfare public services were criticized that the pension premiums have been pumped into other purposes than the pension benefits.

To response such criticism, the Green Pia project was abolished at the end of FY2005 and all facilities were transferred to local public entities and others by December in 2005. Besides, the Business of the Pension Loan for Residence was abolished at the end of 2005, and it was decided that management and collection of loan claim was transferred to the Welfare and Medical Service Agency.

Also, aiming at streamlining the pensions welfare facilities, the Readjustment of Facilities for insured persons and beneficiaries Organization (RFO) to transfer and abolish the facilities was established in October 2005, and RFO is to complete transfer or abolition of all the facilities except for hospitals under jurisdiction transferred to RFO by the end of September in 2010. * 1

Moreover, after FY1998, considering the critical economic situation of Japan, part of pension premiums is allocating to clerical works of the National Pension Plan and the Employee Pension Insurance. However, it was turned out that the pension premiums was used for golf sets for the former Social Insurance Service College, massage tools for the former Social Insurance Office, tickets of musicals and baseball games as the welfare

program for employees, which provoked criticisms.

After FY2005, under the policy “the pension premiums should not be appropriated other than pension benefits and expenses related to the pension benefits”, the pension premiums are limited to be appropriated only for expenses directly related to the pension services.

In FY2010, while we will abolish the systems covered by the pension premiums such as the education of the pension and the public relations for citizens, we have begun reducing system costs. By FY2013, a budget will have been drafted aiming at realization of no pension premium appropriation.

4 Analysis of the issues

As for the issues that we have elaborated, various inspections and verifications have been conducted in different committees established in and out of the Minister of Health, Labour and Welfare, such as the Conference on Pension Service and Organization Reform, the Verification Committee for Pension Scandal, the Committee on Inspection of Public Pension Service and the Social Insurance Agency. As a result of analysis, these issues are categorized into three groups, “lack of governance of organizations”, “the employees’ lack of vocation and responsibility” and the “bureaucratic culture far from citizens’ sense”. * 2

(1) Lack of governance of organizations

As for the structure of the former Social Insurance Agency, so-called “Trilaminar structure” caused “Lack of governance of organizations” structured with officials of the first grade with the Ministry of Health, Labour and Welfare, the second and the third grade employed in the central office of Agencies of the Ministry and the second and the third grade employed in local offices.

Under such circumstances, the internal inspection was not functioned in addition to that orders from senior officials and reports from the subordinates were not reached properly. Also, the systems to improve the organization and the organizational structure were inadequate.

For instance, as for the Pension and Welfare Service, there was no system to limit expansion and to judge the situation surrounding the services, and cooperation and communication was not enough between the department, which designed and planed the systems, and the departments, which were in charge of implementing services, As for the former Social Insurance Agency, at the issue was the employee organization.

Social Insurance Agency did not have a system to make decisions swiftly as the organ in

charge of pension business since the Council on the National Expenditure of All Japan Prefectural and Municipal Workers Union protested against the plan of the introduction of an online system around 1975, calling out “No job cuts”, “No stretch-out”, and “No centralization”, and there have been a number of memorandums and agreements between the authorities and the employee organization.

(2) Employees' lack of vocation and responsibility

Observing the reported scandals by now which the former Social Insurance Agency were involved in such as referring the personal pension records for unofficial purposes and the close relationship to suppliers, it is obvious that they crucially lacked their vocation and responsibility.

Also, as for the pension scandal, it is pointed out that they were not aware of importance of accuracy of the records and the Agency fell in its duties as the organ to manage the records and documents properly.

In fact, a number of employees knew errors of the pension records in some degree. However, they did not make any organizational efforts to quantitatively grasp, verify and correct them.

Although these issues are possibly affected by lack of governance of organizations, such as the “trilaminar structure” and so on, efforts of each employee to have more vocation and responsibility are necessary.

(3) The Bureaucratic Culture far from “citizens' sense”

The former Social Insurance Agency checked and confirmed records only when recipients of the pension applied for the benefits, and if there were mistakes, correct the record .even though they should have kept the records always accurate. At issue was that they did not consider establishing a system in which citizens can check the pension record by themselves.

In the recommendation on the basis of the result of “the Administrative Audit of Employee's Pension Insurance” by the then Administrative Management Agency between August 1958 and February 1959, it was pointed out that there were errors in the ledger such as names, date of birth, qualification date and monthly standard remuneration. However, the then Ministry of Welfare said that “it is very difficult to examine into all the records, so we will recalculate them at the time of providing benefits and secure accuracy in determination of benefit provision”,

In the notification given to all the former Social Insurance Offices from the former Social Insurance Agency, it was pointed out that the number of record errors by computer has

already reached 930,000, and taking prevention measures against record leak was instructed . However, the problems have remained

This fact clearly represents the bureaucratic culture far from “citizens’ sense” and this must be fundamentally revised.

As for the Pension and Welfare Service Project, in the background why full-fledged review had not been conducted until the pension system was revised in 2004, there was no place to learn opinions on of contributors and that of experts about the service project .

This is a problem of lacking efforts to know the actual condition but also a problem of not keeping people’s needs in their mind.

These issues represent the bureaucratic culture far from “citizens’ sense” and it requires the officials to broaden their consciousness.

* 1 As of July 31, 2010, all 300 facilities except for hospitals have been transferred to the Readjustment of Facilities for insured persons and beneficiaries Organization (RFO).

Besides, as for Social Insurance Hospitals and Koseinenkin Hospitals, although they were placed under the control of RFO as of October 2008 and were to be transferred to RFO, “the Bill for Independent Administrative Agency, Regional Health Care Organization” was presented in the Diet on October 27, 2009 in order to succeed the said hospitals from RFO aiming at fulfilling their roles as the regional medical institutions after the dissolution of RFO .

Then, this bill was rejected in the ordinary Diet session in 2010.

In order to secure the main administration of the hospitals since October 2010, “the Act on Readjustment of Facilities for insured persons and beneficiaries Organization” was revised by legislation proposed by lawmakers in an extraordinary session of the Diet and the dissolution of RFO was postponed for two years.

* 2 The study was conducted according to the final report from the advisory council on the Social Insurance Agency (May 31, 2005), the report from the committee for the verification on the pension welfare return business (September 20, 2005) and the report from the committee for verification on the pension record problem (see 1 mentioned above).

5 Efforts to reform

As a result of repeated discussions on above-mentioned issues, it was decided to abolish the former Social Insurance Agency and the Japan Pension Service Law was enacted in 2007. Under the law, the Japan Pension Service as the public corporation of

non-government-official-type was established. The approach of the organization is elaborated on the Section 1 in the Chapter 2.