

Japan's Pension Reforms in the last two decades

April 2-3, 2014 6th Global Pension & Savings Conference, the World
Bank

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Reforms for the Last Two Decades

- Social security pension system
- Corporate pension plans

Social Security Pension System

Actuarial Valuations and Pension Reforms

- At least every 5 years since 1954
- It has been the custom to review the system on actuarial valuation

Demographic Change and Reforms

- In the latter half of 1970's the longevity improvement was noted
- In the latter half of the 1980's the fertility decline was noted
- Repeated pension reforms since 1985 that were tough on both the active participants and the pensioners

1985 Reform

- Benefit cut by 25%

1994 Reform

- Raising of the pensionable age of the flat-rate part
- Change of the indexation basis from gross wage increase to disposable income increase

1994 World Bank Report (1)

- Welcomed by some economists who were not familiar with social security system
- Great concerns were expressed by the social security experts
- Big intensive debates

1994 World Bank Report (2)

- The Ministry of Health, Labour and Welfare published the booklet on reform options in 1997 and 98 and surveyed the public opinion in 1998
- The majority opposed the privatization

2000 Reform

- Benefit cut
- Change of indexation basis for pensioners aged 65 and above from disposable income increase to CPI increase
- Raising of the pensionable age of the earnings-related part from 60 to 65

2004 Reform

- Future contribution program was fixed
- Modified indexation was introduced
(automatic balancing mechanism similar to German sustainability factor)
- Political environment

Point for Discussion (1)

- Social security pension system's role is to transfer the goods and services currently produced
- Goods and services cannot be saved
- Roles of private pensions are to save money

Point for Discussion (2)

- The concept of inter-generational equity is very difficult to define; it has many facets
- The active participants 40 years ago paid contributions at a very low rate
- Still their disposable income was much lower than the current active participants'
- They even had to send money to their parents because their parents had no social security pensions
- There are many other flow of goods, services, money from one generation to other

Corporate Pension Plans

Stagnant and Deflationary Economy

- The Japanese economy has been stagnant and deflationary since around 1990 when the bubbly economy burst
- Very low rate of return

Corporate Pension Plans in Japan

- Employees' Pension Funds (EPFs) (since 1966)
- DB corporate pension plans (since 2002)
- DC plans (corporate type) (since 2001)

Reforms

- Repeatedly allowed plans to raise the contribution rate
- In 1997 allowed accrued benefit reduction
- In 2001 allowed the EPFs to return the substituted part to the social security pension system

Risk Profile of Japanese Corporate Pension Plans

- Investment risk
- No inflation risk
- Small longevity risk

Results

- Many DB plans have continued to exist
- EPFs are decreasing

Issues

- Life annuity or lump-sum retirement benefits
- Difference of roles between the social security pension system and the private pension plans

Thank you very much
for your attention!