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!