

JAPAN



DEMOGRAPHICS AND MACROECONOMICS

Nominal GDP (JPY bn)	515 747.3
GDP per capita (USD)	34 277.7
Population (000s)	127 771.0
Labour force (000s)	66 690.0
Employment rate	96.1
Population over 65 (%)	21.5
Dependency ratio ¹	41.2

Data from 2007 or latest available year.

1. Ratio of over 65-year-olds the labour force.

Source: OECD, various sources.

COUNTRY PENSION DESIGN

STRUCTURE OF THE PENSION SYSTEM

Public pensions

- The Japanese pension system has two tiers, a basic flat-rate scheme and an earnings-related plan.

Private pensions: occupational (voluntary)

- Employees Pension Fund (EPF) (*kosei nenkin kikin*)
- Defined benefit corporate pension fund (*kakutei kyufu kigyo nenkin*)
- Corporate defined contribution funds
- Tax qualified pension funds
- Mutual Aid Associations (MAA)

Private pensions: personal (voluntary)

- Individual defined contribution funds (*kakutei kyoshutsu nenkin [kojin-gata]*)
- National pension funds (*kokumin nenkin kikin*)

PENSION FUNDS DATA OVERVIEW

	2001	2002	2003	2004	2005	2006	2007
Assets							
Total investments (National currency millions)	92,293,800	83,510,300	92,173,800	91,457,600	109,731,600	114,934,100	102,971,500
Total investments, as a % of GDP	18.54	17.00	18.80	18.35	21.87	22.58	19.97
Of which Assets overseas, as a % of Total investment:							
• Issued by entities located abroad	ND	ND	ND	ND	ND	ND	ND
• Issued in foreign currencies	ND	ND	ND	ND	ND	ND	ND
By financing vehicle (as a % of Total investments)							
• Pension funds	100.00	100.00	100.00	100.00	100.00	100.00	100.00
• Book reserves	NA	NA	NA	NA	NA	NA	NA
• Pension insurance contracts	NA	NA	NA	NA	NA	NA	NA
• Other financing vehicle	NA	NA	NA	NA	NA	NA	NA
By pension plan type							
• Occupational assets	ND	ND	ND	ND	ND	ND	ND
• % of DB assets	ND	ND	ND	ND	ND	ND	ND
• % of DC (protected and unprotected) assets	ND	ND	ND	ND	ND	ND	ND
• Personal assets	ND	ND	ND	ND	ND	ND	ND
Structure of Assets (as a % of Total investments)							
Cash and Deposits	ND	ND	ND	ND	ND	ND	ND
Fixed Income	ND	ND	ND	ND	ND	ND	ND
Of which:							
• Bills and Bonds issued by the public and private sector	ND	ND	ND	ND	ND	ND	ND
• Loans	ND	ND	ND	ND	ND	ND	ND
Shares	ND	ND	ND	ND	ND	ND	ND
Land and Buildings	ND	ND	ND	ND	ND	ND	ND
Other Investments	ND	ND	ND	ND	ND	ND	ND
Contributions and Benefits							
Total Contributions, as a % of GDP	ND	ND	ND	ND	ND	ND	ND
• Employer Contributions, as a % of Total contributions	ND	ND	ND	ND	ND	ND	ND
• Employee Contributions, as a % of Total contributions	ND	ND	ND	ND	ND	ND	ND
Total Benefits, as a % of GDP	ND	ND	ND	ND	ND	ND	ND
• % of benefits paid as a Lump sum	ND	ND	ND	ND	ND	ND	ND
• % of benefits paid as a Pension	ND	ND	ND	ND	ND	ND	ND
Membership (in thousands of persons)¹							
Total membership	ND	ND	ND	ND	ND	ND	ND
• % of Active membership	ND	ND	ND	ND	ND	ND	ND
Of which: % of Deferred membership	ND	ND	ND	ND	ND	ND	ND
• % of Passive membership	ND	ND	ND	ND	ND	ND	ND
Other beneficiaries	ND	ND	ND	ND	ND	ND	ND
Number of Pension Funds/Plans							
Total number of funds	ND	ND	ND	ND	ND	ND	ND
Total number of plans	ND	ND	ND	ND	ND	ND	ND

Note: Data refer only to corporate pension funds.

1. Membership figures reflect 'membership' rather than 'people'. Therefore a person may be a member of more than one types of plan at any one time, particularly if the person has a number of employments in the year.

ND = data not available

NA = data not applicable

Source: OECD, Global Pension Statistics

JAPAN: THE PENSION SYSTEM'S KEY CHARACTERISTICS

PUBLIC PENSION

The public pension system in Japan comprises two parts, namely the NP programme and occupational related public pensions; the latter includes the employee pension insurance (EPI) for the private sector and the mutual aid association (MAA) for the public sector and private school employees.

National pension programme (NP): This NP programme covers residents aged between 20 and 59 in Japan. Participation is mandatory, except for those residents aged between 60 and 64 and for the citizens (aged between 20 and 64) residing abroad. For workers in the public and private sectors, the contribution to the NP is deducted from contributions to the second part of the public pension system, i.e. EPI and MAA. Full contributions by employees, i.e. 480 months of contributions, result in a pension benefit of JPY 792,000 a year. If the number of contributing months is less than 480 (but must be more than 300), the pension benefit will be reduced correspondingly. Meanwhile, given NP's partial funding nature, the Japanese government makes up the financing gap, which is currently around 1/3 to 1/2 of the total benefits.

Employee pension insurance (EPI) and the mutual aid association (MAA): the employee pension insurance (EPI) covers employees in industry and commerce as well as seamen, while the mutual aid association (MAA) mainly covers the public sector employees and the private school employees. For the EPI, as of 2006 the contribution rate in total was 14.64% of payroll, which is equally split between employees and employers, i.e. 7.32% each. The government does not need contribute to the NP, but total administration costs for public pensions are fully covered by the government. Pre-determined formula is used to calculate the earning-related benefits.

OCCUPATIONAL VOLUNTARY

Coverage

EPFs, TQPPs, defined benefit and defined contribution plans cover only private sector employees, with EPFs designed only for private-sector employees who are part of the EPI public pension system. Public sector employees benefit from separate arrangements.

In 2000 approximately 90% of firms with at least 90 employees offered occupational pension provision: book-reserved termination indemnity plans, EPFs, or TQPPs. Approximately 50% of these firms provided EPFs or TQPPs. Overall, the occupational pension system covers approximately 35% of the labour force.

Typical Plan Design

A typical plan design in Japan is a severance-pay defined benefit plan. Benefit is often taken up as a lump sum and is equal to final salary multiplied by a pre-specified coefficient, which depends on an individual's years of service and the reason for his or her termination of employment.

Defined contribution plans were introduced in Japan in 2001, but have not yet proved to be particularly popular.

Under EPF schemes, employees and employers each contribute one-half of total contributions to substitution benefits, while employees usually pay less than one-half of total contributions to additional benefits and employers more than one-half.

Employees do not usually contribute to defined benefit plans or TQPPs. Employers generally pay the total contribution, with the rate varying greatly from company to company.

Employers pay the total contribution to defined contribution plans, as employee contributions are prohibited.

Benefit payments can be lump sums or annuities in all five types of plans.

The normal retirement age is 60.

Taxation

There is no limit to the percentage of employee contributions that can be claimed as tax-deductible. Nor is there any tax-deduction ceiling on employer contributions, as long as the amount is based on the proper actuarial funding standard.

Employee contributions to defined benefit plans and TQPPs are tax-deductible up to a limit of JPY 50 000. If an employee pays a life insurance premium, the cap of JPY 50 000 is reduced by the amount of the premium. There is no limit to the tax-deductible share of employer contributions, as long as the amount is based on the proper actuarial funding standard.

Under defined contribution plans, the maximum yearly amount deductible from the contribution of an employer sponsoring only one occupational plan is JPY 552 000 per employee. If the employer also sponsors a defined benefit plan, the maximum yearly tax deduction from the employer's contribution to the defined contribution plan is JPY 276 000 per employee.

Assets in EPFs are taxed at an annual rate of 1.173% (1% national and 0.173% local tax), if they exceed the amount needed to cover liabilities of 2.84 times the accrued substitutional benefits. Assets in all plans other than EPFs are taxed at a yearly rate of 1.173% (1% national and 0.173% local tax).

Pension benefits from all plans are taxed as income at a rate of between 10% and 37%.

MARKET INFORMATION

Occupational voluntary

Total voluntary occupational pension assets amounted to JPY 103.0 trillion in 2007 (USD 874.4 billion). In 2007 there were approximately 600 EPFs and 35 000 TQPP contracts, their respective numbers having declined rapidly in recent years. In the same year there were over 2 000 contract-type and fund-type defined benefit plans, and over 2 500 defined contribution plans.

POTENTIAL REFORM

Contribution to the NP programme will be increased gradually to JPY 13,900 per month in 2017 and fixed onwards. More financial support from the government so as to strengthen the public pension system is also planned.

REFERENCE INFORMATION

KEY LEGISLATION

2001

- The Defined Benefit Occupational Pensions Act: establishes two new types of plans as of 1 April 2002 – the fund-type and contract-type defined benefit plans – and provides for the phasing-out of TQPPs by 2012.
- The Defined Contribution Occupational Pensions Act: introduces the possibility of establishing defined contribution plans and provides for the establishment of both occupational and personal defined contribution plans.

KEY REGULATORY AND SUPERVISORY AUTHORITIES

Ministry of Health, Labour and Welfare;

www.mhlw.go.jp

Pension Fund Association of Japan.

SELECTED KEY OFFICIAL STATISTICAL REFERENCES

Bank of Japan

Social Insurance Agency, *Annual Report FY2005*

Pension Fund Association (2007), *The Basic Statistics about Company Pensions*, December.

OECD, Global Pension Statistics project, www.oecd.org/daf/pensions/gps.



