

IOPS COUNTRY PROFILE: JAPAN

DEMOGRAPHICS AND MACROECONOMICS



GDP per capita (USD)	41 344
Population (000s)	125 502.3
Labour force (000s)	69 072.5
Employment rate ²	97,2
Population over 65 (%)	28.9
Dependency ratio ¹	52.4

Data from 2021.

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

2. Employment rate is calculated by dividing the number of employed persons by the labour force.

Source: OECD, various sources.

JAPAN: COUNTRY PENSION DESIGN

STRUCTURE OF THE PENSION SYSTEM

Public pensions

- The Japanese pension system has two tiers, a basic flat rate scheme and an earning-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 (kakutei kyoshutsu nenkin [kigyo-gata])
- Mutual Aid Associations (MAA)

Private pensions: personal (voluntary)

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

JAPAN: THE PENSION SYSTEM'S KEY CHARACTERISTICS

PUBLIC PENSION

The public pension system in Japan comprises two parts, the flat-rate National Pension (NP) for all residents and the earning-related Employee Pension Insurance (EPI) for public and private sector employees.

The NP is mandatory for all residents aged between 20 and 59 in Japan. Participation is voluntary for those residents aged between 60 and 64 and for the citizens residing abroad. For those not covered by EPI, the contribution amounts to JPY 16,590 a month as of 2022. For those covered by the EPI, the contribution to the NP is deducted from contribution for the EPI. Full contribution by an insured person, i.e. 480 months of contribution, results in a pension benefit of JPY 777,800 a year. Shorter contribution periods result in a lower benefit. NP's financial resources are made up of contribution, pension reserve fund and government subsidies, which is ½ of the total benefits.

The EPI is mandatory for employees who is under the age of 70 and fulfil certain conditions. As of 2022, the contribution rate to EPI is 18.3% of payroll, which is equally split between employees and employers. The benefit from the EPI is earning-related and depends on his/her contribution. The EPI's financial resources are made up of contribution and pension reserve fund. *THE*

OCCUPATIONAL VOLUNTARY

COVERAGE

EPFs, defined benefit and defined contribution plans-cooperate type cover only private sector employees, with EPFs designed only for private-sector employees who are part of the EPI public pension system. All residents aged under 65 may join defined contribution plans-individual type in principle.

TYPICAL PLAN DESIGN

Benefit of defined benefit plan is often taken up as a lump sum and is equal to total reserve 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. The number of beneficiaries are increasing with expansion of the target coverage.

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. They are allowed to contribute within employer contributions if contracts stipulate employee contributions. Their contribution rate varies greatly from company to company.

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

The normal retirement age is 65.

TAXATION

Contributions to the NP and EPI are tax-deductible. 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 are tax-deductible up to a limit of JPY 50 000. If an employee pays a life insurance premium, the cap of JPY 40 000 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 660 000 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 330 000 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 3.23 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). The moratorium of this taxation has been valid since 1999.

Pension benefits from all plans are taxed as income at a rate of between 5% and 45%.

MARKET INFORMATION

Occupational voluntary

Total assets of EPFs amounted to JPY 2.4 trillion in 2021. Since April 1, 2014, the establishment of EPFs is not admitted. In April 2014 there were 531 EPFs, their numbers having declined to 5 in March 2021.

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.
- 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

Source map: the Geospatial Information Authority of Japan (GSI), <https://maps.gsi.go.jp/multil/> .