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Private Pension Plans in Japan

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Securing Employer-Based Pensions

An International Perspective

Edited by Zvi Bodie, Olivia S. Mitchell, and John A. Turner

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For over two thousand years, Japan has had a very different civilization from that in the West. It should thus not be surprising that Japan has developed a retirement income system that differs from those in Western countries. Western pension scholars who understand the Japanese pension system in terms of Western concepts of retirement plans miss important aspects of the Japanese pension system.

Overview of the Japanese Retirement System

The Japanese system for providing retirement income has three pillars: social security, private pension plans, and individual savings plans. The social security plans are the most important source of retirement income. The original system of social security was established in 1941, but at that time many workers were not included. A major change in the Japanese retirement income system occurred in 1961, when the National Pension plan was established to cover all Japanese citizens. A further major change occurred in 1985, when the present two-tier structure of social security was established. The first tier is a flat benefit related to years worked but not earnings. The second tier is related to both years worked and earnings. The most recent addition to retirement income plans occurred in 1991, when the National Pension Funds Plan was introduced as a supplementary pension for self-employed workers.

The two-tier structure of social security is composed of the National Pension plan and five plans covering different groups of workers, including plans for national and local government workers.

The National Pension plan covers every Japanese citizen aged 20 and over. The earliest age at which workers can receive full benefits is 65. The National Pension provides three types of benefits: (1) an old age pension,
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(2) a disability pension, and (3) a survivors pension. The National Pension plan covers 68.4 million people and provides average benefits of 35,000 yen a month (about US$ 330, or about US$ 4,000 a year) to beneficiaries age 65 and older. The monthly contribution is the same for all workers, and was 10,500 yen (about US$ 100) for fiscal year 1993. (Fiscal years end on March 31 of the following calendar year.) There were 19 beneficiaries per 100 covered workers in that year.

Because contributions have been larger than benefit payments, each year the reserves for the National Pension increase. The National Pension had 4.4 trillion yen (about US$ 35 billion) in accumulated reserves in 1992.

There are five mandatory earnings-related social security and public employee plans. The Employees' Pension Insurance covers most workers in the private sector and thus corresponds most in terms of coverage to the United States' social security system. Government employees and small groups of private sector employees are covered by the Mutual Aid Associations for National Public Servants, the Mutual Aid Association for Local Public Servants, the Private School Personnel Mutual Aid Association, and the Agriculture, Forestry and Fisheries Employee Mutual Aid Association.

These five earnings-related plans cover 37.8 million active participants with 7.2 million beneficiaries. They have 117.7 trillion yen (US$ 930 billion) in accumulated reserves as of 1994. As for the National Pension, it has an average of 19 beneficiaries per 100 workers, but with large differences in this ratio, ranging from eight per 100 for the Private School Personnel Mutual Aid Association, to 169 per 100 for the Japan Railways Mutual Aid Association.

Employees' Pension Insurance has 31.9 million insured participants and 5.0 million beneficiaries. It has 15.6 beneficiaries per 100 covered workers. It pays average monthly benefits of 151,000 yen (about US$ 1,400, or about US$ 17,000 a year). This amount combined with the National Pension is higher than that received by social security beneficiaries in most other countries. The contribution for both men and women in 1994 was 14.5 percent of wages. The contribution is not charged on the twice-yearly bonuses that most career workers receive, and thus the effective contribution rate on total earnings is somewhat lower than the stated rate.

Social security accumulated reserves have increased 22-fold in the National Pension plan and 51-fold in the Employees' Pension Insurance plan between 1965 and 1991. The assets of these plans are required by law to be managed on a sound and profitable basis. In order to manage the investment of social security and public pension fund money, the money is deposited with the Trust Fund Bureau of the Ministry of Fi-
nance, but does not become part of the national government budget. The Trust Fund Bureau uses the social security and public pension fund reserves to finance a complex network of government investment and lending operations.

**Future Funding of the Social Security System**

The generosity of Japanese social security systems improved greatly during the rapid economic growth of the past several decades. Social security expenditures in Japan in 1989 were 13.9 percent of national income, compared to 15.8 percent in the United States and 28.4 percent in West Germany.

The ratio to national income of all taxes, including contributions for social security, was 38.5 percent for Japan, 36.5 percent for the United States, and 52.5 percent for West Germany. Population aging will increase the burden of tax and social security expenditures. That burden is projected to exceed 50 percent early in the next century. The Japanese government, however, has indicated it intends to keep the ratio of taxes and social security contributions to national income to less than 50 percent. In order to cope with the cost increases for pension benefits associated with a growing number of beneficiaries and a longer period of receipt of benefits (due to increasing life expectancy), the government will need to raise the social security tax rate.

The government estimated in 1989 that, if the present benefits provided at age 60 remain unchanged, a contribution rate of about 35 percent would be required in 2025 to maintain the social security trust funds. If the pension age were to be raised gradually from 60 to 65, with a reduced benefit available to those ages 60 to 64, the required contribution rate would fall to 28 to 29 percent.

Population aging may affect the overall government budget. The Organization for Economic Cooperation and Development (OECD) has estimated that the Japanese government deficit will be worse relative to the Japanese economy than the United States government deficit in 1995. Further, it estimates that if social security funds are excluded from the calculation, the Japanese government deficit was worse than the United States deficit in 1993. In 1993, the Japanese deficit was 4.5 percent of gross domestic product (GDP), compared with the United States deficit of 4.4 percent (Organisation for Economic Development, 1993). To calculate the government deficit correctly, social security funds, which are composed mainly of funds for social security, should be excluded. The worsening Japanese government deficit reflects the worsening economic situation and the heavy burden of a rapidly aging society.

To adjust to an aging population, changes in social security will be
needed. The Pension Council advises the Ministry of Health and Welfare. It is composed of academics, employee representatives (usually union officials), and employer representatives (usually officials of major employers' organizations). Although not required by law, the Japanese government always asks the opinion of the Pension Council when considering major changes in pension laws. In October 1993, the Pension Council (1993) made two recommendations: (1) that the age for receiving a full pension benefit from Employees' Pension Insurance be raised from 60 to 65, with reduced benefits available at age 60, and (2) that benefit amounts be indexed to changes in real disposable income, rather than to prices. The initial benefit at retirement under the indexation proposal would be based on a portion of the worker's real disposable earnings immediately before retirement. Indexing after retirement would be tied to the increase in real disposable income rather than the increase in prices. The two main reasons for the recommendations are that the Japanese economy has moved from a period of rapid growth to a period of slower growth, and that the rapid aging of the Japanese population will increase the tax burden rapidly over the next century.

The Japanese government intends to amend social security laws according to these recommendations. These changes in social security programs will cause private pension plans to become increasingly important.

Private Pension Plans

In Japan private pension plans have traditionally been defined benefit plans. Defined contribution plans have not been considered to be pension plans but rather are thought of as individual savings plans.

Lump sum benefit plans are an important part of the defined benefit private pension system. These plans predate the Japanese social security system. They have decreased in importance over the past 20 years but still are important. They are the predecessor of the current pension plans in many companies.

A Short History of Retirement Income Systems in Japan

Contrary to many Westerners' views of Japanese history, Japan had a well-developed economy before the 1868 Meiji revolution. The first lump sum retirement benefit plans may have been introduced in the late seventeenth century. Initially, they were severance pay plans, but gradually they came to be a retirement income security system. The oldest document concerning a lump sum retirement benefit plan is the will in 1722 of a Mr. Sozin, President of Mitsui Company, which shows that the Mitsui Com-
pany had a retirement income system for its managers and white collar workers (but not blue collar workers) with the managers and white collar workers contributing (Kurozami 1966).

In 1876, a government shipbuilding factory established a lump sum retirement benefit plan. In 1883, the Japanese government established a public pension plan covering military personnel and upper level government officials.

In 1885, the Ohzi Papermaking Company established a lump sum retirement benefit plan for its workers. This plan is historically important because it is the first modern plan that covered blue collar workers. The minimum service requirement for eligibility for a lump sum retirement benefit was 10 years. In 1897, the Mitsui Company established a lump sum retirement benefit plan with minimum vesting of three years. In 1914, the Mitsui Company amended its plan and introduced the first life annuity pension benefits plan in Japan.

Between 1900 and 1910, lump sum retirement benefit plans became popular for managers and white collar workers, but they did not become widespread for blue collar workers until the 1920s and 1930s.

Traditionally in Japan, labor mobility was high, even in the nineteenth century. But starting about 1910, industries began establishing the Teinen-seido system, which is the current system of lifetime employment followed by mandatory retirement. Contrary to popular understanding of Japanese labor customs, the lifetime employment system in Japan has had a relatively short history.

In 1936, the Lump Sum Retirement Benefit Plans law was enacted. It was the first law regulating retirement income security for workers. In 1941 the Workers Pension Insurance law was enacted, and it was amended by the Employees' Pension Insurance law in 1944, which created the first social security pension plan. After World War II, the new Japanese constitution guaranteed the rights of workers to organize, bargain, and act collectively. Unionization spread rapidly. By 1947, the unionization rate had increased to 45 percent, compared with 8 percent in 1931.

Immediately after World War II, one of the main goals of the labor movement was to establish better lump sum retirement benefit plans. These were viewed as a right of employees guaranteed by the new constitution. A government survey in 1951 showed that 96 percent of companies with more than 500 employees had those plans, as did 90 percent of companies with 100 to 499 employees, and 78 percent of companies with 30 to 99 employees. A survey in 1955 showed that over 70 percent of companies had the current system of lifetime employment with mandatory retirement, and by 1959 all companies with more than 1,000 employees had such a plan.
Conditions Prior to the Introduction of Private Pension Plans

As Japanese industries destroyed during World War II regained their strength, employers wanted to encourage long tenure by their workers. Employers increasingly introduced the system of lifetime employment, followed by mandatory retirement with a lump sum benefit at a relatively early age. The lump sum retirement benefit plans, however, required companies to pay large sums when each employee reached the mandatory retirement age, usually 55.

The lump sum benefit plans were financed by the book reserve financing method. The 1952 amendment of tax laws established the current system of book reserve financing. In the lump sum benefit plans, the benefit an employee receives at mandatory retirement or mandatory job separation is much larger than the benefit he or she receives if he or she leaves the job voluntarily. In the book reserve financing method, employers can only take a tax deduction based on the amount of benefits the employee would receive if he or she leaves voluntarily. Employers can take a tax deduction at the point of mandatory retirement for the difference between the benefit for voluntary retirement and the benefit for mandatory retirement.

Because lump sum benefits are not advance-funded, financing lump sum benefits for retiring employees was a big burden for employers. They sought a funded system for providing retirement benefits. In 1962, by amendment of the Corporation Tax law and the Income Tax law, Tax Qualified Pension (TQP) plans were introduced. In 1966, a further major legal change occurred when Employees’ Pension Fund (EPF) plans were introduced.

In some firms, Tax Qualified Pension plans or Employees’ Pension Fund plans replaced lump sum benefit plans, but in many other firms the lump sum retirement plans have continued along with those plans. Even if the plan is not a lump sum benefit plan, when employers and employees negotiate benefits from private pension plans, they usually compare benefits in terms of their lump sum value.

There are four types of defined benefit plans in Japan today: (1) Lump Sum Retirement Benefit plans funded by book reserve; (2) Tax Qualified Pension plans; (3) Employees’ Pension Fund plans; and (4) non-tax qualified defined benefit plans. Though of considerably less importance, there are also three types of defined contribution plans: (1) Middle to Small Enterprise Private Pension Mutual Aid plans; (2) Zaikei-tyotiku plans; and (3) National Pension Fund plans for employees not covered by Employees’ Pension Insurance plans. We consider each in turn.
Lump Sum Retirement Benefit (Book Reserve) Plans

The lump sum retirement benefit plans receive preferential tax treatment under corporate tax law, which allows employers tax deductions for an amount equal to 40 percent of the accrual of voluntary retirement lump sum benefits. The amounts of the lump sum benefit at voluntary and mandatory retirement are determined by contract with the labor union in unionized firms.

No accurate statistics on the total number of book reserve plans are available, but the most useful information is from the Tax Administration of the Finance Department of the Japanese government. These data contain about 65,000 companies, or 2.7 percent of all companies in Japan. They contain all companies with capital value of 1.0 billion yen or more, and 40 percent of companies of between 0.1 and 1.0 billion yen. According to these data, 5 percent of companies have book reserve plans, and the total value of the plans equals 18 percent of the value of the companies.

The percentage of companies using book reserve plans increased from 7.1 percent in 1971 to 8.0 percent in 1974, and then decreased to 5.4 percent in 1992. The main reason for the decrease is that firms have established Employees’ Pension Fund and Tax Qualified Pension plans instead. Book reserve plans are much more common in large firms than in small ones. In 1992, 74 percent of companies with capital value of one billion yen or more had those plans. In comparison, only 1.5 percent of companies having a value of less than 5 million yen had book reserve plans. Large firms have thus used not only Employees’ Pension Fund plans and Tax Qualified Pension plans but also book reserve plans.

Tax Qualified Pension Plans

Employers with 15 or more full-time workers can contract with financial institutions to establish Tax Qualified Pension plans. The main requirements are that (1) the plan must be established for the sole purpose of paying retirement pension benefits, with employees having the option of receiving lump sum benefits; (2) the plan must be funded through a trust bank or life insurance company; (3) contributions must be calculated on a predetermined basis, such as a fixed percentage of salary or a fixed amount (at least every five years, the plan must recalculate the fixed percentage or fixed amount to adjust for overfunding or underfunding); (4) the plan must follow prescribed actuarial assumptions, with actuarial reviews conducted at least every five years; (5) although reserves may be transferred to another Tax Qualified Pension plan or Employees’ Pen-
sion Fund plan, they cannot revert to the employer; (6) if the plan is terminated, the reserves must become the property of the participants; (7) the plan may not discriminate against any group of employees in terms of eligibility and benefit provisions (it must cover all full-time employees but may exclude part-time employees); and (8) the owners and directors of the company generally must be excluded from the plan.

In 1993, there were 10.4 million employees in 92,000 Tax Qualified Pension plans. Benefits were paid from life annuities in 21 percent of plans, but were paid for 10 years in 46 percent of plans, and 15 years in 30 percent.

Employees' Pension Fund Plans

The Employees' Pension Fund plans are contracted-out plans. The term "contract out" means that a qualifying company, with the permission of the Health and Welfare Ministry, can establish the pension fund as a legal entity different from the plan sponsor and can pay a reduced social security tax rate. In exchange, the plan must provide a pension benefit that is at least 30 percent more generous than the social security benefits being replaced. Changes in pension laws in recent years have reduced the participant size requirements for employers to establish Employees' Pension Fund plans (Watanabe, Turner, and Rajnes 1994).

There are four types of Employees' Pension Fund plans: single company fund plans, established with a single company as plan sponsor, and requiring at least 500 full-time participants; allied company fund plans, established with the sponsorship of affiliated companies within a company group, and requiring at least 800 full-time participants; multi-employer plans, established with a national or regional trade association as plan sponsor, and requiring at least 3,000 full-time participants; and regional plans, established with employers in different industries within the same prefecture as plan sponsor, and requiring at least 3,000 full-time participants.

In 1993 there were 11.7 million employees participating in Employees' Pension Funds in 1,735 plans.

Because the government relaxed the laws for establishing Employees' Pension Fund plans, the coverage of these plans has been growing. The Japanese government has the goal that these plans cover half the workers covered by the Employees' Pension Insurance, up from a third in the early 1990s. Employees' Pension Fund plans have increased in popularity in recent years and cover more employees than do Tax Qualified Pension plans. The reasons for their popularity are that they receive more favorable tax treatment than do Tax Qualified Pension plans, that they pay annuities rather than lump sum benefits, and that they are portable. The
Pension Fund Association, an association of the Employees’ Pension Fund plans, provides a portability system for job changers. The Tax Qualified Pension plans cannot belong to this system.

In 1992 there were 11.7 million participants in Employees’ Pension Fund plans and 10.4 million in Tax Qualified Pension plans, for a total of 22.1 million participants. The figure of 22.1 million participants gives a coverage rate of 54 percent of the labor force. However, excluding the double counting of participants in both Employees’ Pension Fund and Tax Qualified Pension plans, the coverage rate would be about 50 percent (Watanabe 1993a).

Defined Contribution Plans

Compared to defined benefit plans, defined contribution plans have a short history. In 1959 Middle to Small Enterprise Private Pension Mutual Aid plans were established. Employers with fewer than 300 employees can contract with the Middle to Small Enterprise Private Pension Mutual Aid Association for establishing a pension plan. Employers pay all the contributions, but the government pays the costs of the Association.

In 1972 Zaikei-tyotiku plans were established as individual savings plans. Employees, whose participation is voluntary, can contribute to them and receive a tax deduction. Employers can also contribute for employees.

In 1991 the National Pension Fund plans were established for the self-employed as a defined contribution plan. These plans give employees not covered by Employees’ Pension Fund and Tax Qualified Pension plans the opportunity to benefit from a defined contribution plan, but they do not receive employer contributions.

Problems to Be Solved in Private Pension Schemes

Because social security plan financing is made more difficult by population aging, private pension plans have grown increasingly important in the Japanese retirement income system. There are many problems to be solved, however, concerning private pension plans. The Pension Council (1993) recently recommended that several problems be addressed, including the need to cover more employees in medium and small companies, the need to pay benefits to retired workers age 60 to 65, the need to prevent adverse selection in terms of the Employees’ Pension Fund plans that contract out of the Employees’ Pension Insurance, and the need to abolish unreasonable pension fund investment regulations. Other problems that also need to be addressed are the need to encourage greater self-reliance by employees and beneficiaries, the need to
establish a pension accounting system, and the need to establish legal pension fiduciary requirements.

Labor Market Problems

The labor force participation rate of males aged 65 and older in Japan in 1991 was 38.0 percent, compared to 15.5 percent in the United States. The rate in Japan is relatively high because of the strong work ethic. Also, in Japan there are more opportunities for older workers in family businesses in agriculture, retail sales, and restaurants than in other countries. Differing from the United States, many volunteer activities in Japan provide some pay, and older volunteers are included as labor force participants. However, the comparative study of the percentage of wage income in the income of older families, indicates that Japan (18 percent) and the United States (17 percent) are similar in this regard, perhaps indicating that the pay older Japanese workers receive is very low (Watanabe 1993a).

Characteristics of Private Pension Systems in Japan

Lump sum retirement benefit amounts differ by employer size and by the education, career, and sex of workers. The average lump sum retirement benefit for a male university graduate with 35 years of service in a company with more than 3,000 employees is 27.0 million yen (about US$ 250,000). For a similar male who was a high school graduate, the average lump sum benefit is 21.4 million yen (US$ 200,000), and for a high school graduate in a company with 100 to 299 employees the average amount is 15.7 million yen (US$ 150,000). Females on average only receive about 85 percent of what males receive because they tend to have lower wages and shorter service.

Trends in the Lifetime Employment System

An important aspect of the lifetime employment system is mandatory retirement. The percentage of employers with compulsory retirement age at 60 increased from 68 percent in 1988 to 82 percent in 1992. Employers with a compulsory retirement age of 61 or over increased only from 1.3 percent in 1988 to 2.4 percent in 1992. The government has tried to persuade employers to postpone the compulsory retirement age to 65, but employers have strongly resisted because of the high wage cost of older workers who have received seniority-based wage increases. Japan does not have an Age Discrimination Act that would prevent employers from forcing workers to retire because of their age.
Distribution of Private Pension Plans

On average, 89 percent of employers with more than 30 employees have private pension plans. Even for employers with 30 to 99 employees, 86 percent had pension plans. For employers that have pension plans, 49 percent have only book reserve plans, 11 percent have a Tax Qualified Pension and/or Employees' Pension Fund plan, and 39 percent have a book reserve plan and a Tax Qualified Pension and/or Employees' Pension Fund plan. The percentage of employers with a book reserve plan decreased from 67 percent in 1975 to 49 percent in 1989. Tax Qualified Pension and/or Employees' Pension Fund plans have been preferred by employers with 1,000 or more employees. Excluding book reserve plans, among employers that have private pension plans 16 percent have an Employees' Pension Fund plan, 70 percent have a Tax Qualified Pension plan, and 8 percent have an Employees' Pension Fund and Tax Qualified Pension plan. Among employers that established an Employees' Pension Fund or Tax Qualified Pension plan, 77 percent reduced the amounts of their book reserve plans.

The Japanese government designed Tax Qualified Pension plans to be simple to establish and as good plans for small and medium-sized companies. It designed Employees' Pension Fund plans to be suitable for medium and large companies. But many large companies, including Nippon Steel, the largest steel company in the world, have established Tax Qualified Pension plans.

The Employees' Pension Fund plans are contracted out from the Employees' Pension Insurance social security program. With Employees' Pension Fund plans, a fully funded private sector pension plan replaces a public plan that has low funding. These plans also receive a rebate from the Employees' Pension Insurance for each worker in the plan. There is currently a single rebate amount not depending on the average age of the employees in the plan, but depending only on the earnings of the employees. Because it is cheaper to provide benefits for younger workers, firms with young workforces are more likely to contract out than are firms with older workers. The Japanese government is considering a rebate schedule that would vary with the average age of a firm's workforce.

The government has made it easier over time to establish single company Employees' Pension Fund plans. For example, at first those plans required a minimum of 1,000 employees. That minimum requirement is now 500 employees. Further, employees of small firms can without much difficulty establish an Employees' Pension Fund plan through a multi-employer fund or through a regional fund.

The main reason that the two types of plans—Employees' Pension
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Fund and Tax Qualified Pension—coexist is that the Finance Department regulates Tax Qualified Pension plans while the Health and Welfare Department regulates Employees' Pension Fund plans. Each department wants to maintain its power by maintaining the type of plan it regulates.

Taxation of Pension Plans

As in other countries, in Japan private pension plans receive favorable tax treatment. Before the 1962 amendments, tax laws had only provisions for the book reserve financing of lump sum retirement benefits. Japan had no tax law provisions for annuity benefits. Regarding annuity benefits, neither employer nor employee contributions for funding pension benefits were tax-deductible; pension fund earnings were taxable; pension benefits were taxable to the beneficiary when received; and pension benefit amounts were tax-deductible to the employer only when paid to the beneficiary.

Since 1962, private pension plans (other than non-tax-qualified plans) have enjoyed favorable tax treatment compared to other forms of savings. For other savings, the investment earnings are taxable at a rate of 20 percent (a 15 percent income tax and a 5 percent regional tax). For people aged 65 and older, however, the investment earnings on savings is not taxable. Employer contributions to employee savings are deemed to be wage income to the employee and are immediately taxable.

Tax Treatment of Employer Contributions to Pension Plans

For both Employees' Pension Fund plans and Tax Qualified Pension plans, employers may deduct 100 percent of contributions for involuntary retirement annuity benefits if the amount of the contribution is determined on a reasonable actuarial basis. Contributions for past service liability are also tax deductible. For book reserve plans, the employer may deduct 40 percent of the amount equivalent to the accrual of lump sum voluntary benefit amounts.

It is easier for employers to accumulate the money necessary to pay annuity benefits through an Employees' Pension Fund plan or a Tax Qualified Pension plan than it is to accumulate money to pay annuity benefits or lump sum benefits through a book reserve plan. The present tax laws are not favorable to book reserve plans. However, many large companies have book reserve plans because they can use the money that would have been put into a pension plan as working capital.

Employee contributions to an Employees' Pension Fund plan receive a
tax deduction because they are like social insurance contributions. For a Tax Qualified Pension plan, employees may receive a tax deduction up to a maximum of 100,000 yen a year (about US$ 950) for contributions. There are no employee contributions to book reserve plans since they are not funded.

A special corporate tax of one percent and a regional tax of 0.75 percent are levied on the proportion of Employees’ Pension Fund plan assets that exceed a stipulated limit. The limit is set at 2.7 times the required funding to substitute the Employees’ Pension Fund pension for Employees’ Pension Insurance. For a Tax Qualified Pension plan, pension assets held by a life insurance company and/or in a trust bank are not subject to the regular personal income tax or corporate income tax. They are subject to the special corporate tax of 1.0 percent and regional tax of 0.75 percent, which is levied on pension assets after excluding employee contributions. The special corporate tax was originally set at 1.2 percent in 1962, but was reduced to 1.0 percent in 1968.

Book reserve plans are generally invested in the working capital of the company, and the earnings on the working capital are subject to the corporate tax, which is roughly 50 percent (including a regional tax).

The special corporate tax payments have grown as private pension plans have developed. The amounts in 1991 were 950 million yen (US$ 7 million) for Employees’ Pension Fund plans (paid by 30 plans) and 12.7 billion yen (US$ 94 million) for Tax Qualified Pension plans. Many groups, including the Japan Employers’ Association, have proposed that the taxation of pension assets be abolished.

In April 1993, the Japanese government amended pension law to establish Special Tax Qualified Pension plans, which enjoy favorable tax treatment in comparison to other Tax Qualified Pension plans. These plans do not pay the 1.75 percent special corporate tax. Two main requirements for a Special Tax Qualified Pension plan are that the firm must employ fewer than 500 employees (so that the firm does not qualify to establish a single firm Employees’ Pension Fund plan) and the pension benefits provided by the plan must be life annuities. The government established this type of plan to encourage more small employers to establish pension plans and to encourage the offering of lifetime annuities.

Taxation of Annuity Benefits

Annuity benefits paid by an Employees’ Pension Fund plan are subject to the same tax as on social security benefits. The tax is applied after certain deductions are made. For a married annuitant under age 65, the maximum annuity on which no tax would be paid is 1.71 million yen (about
US$16,000). For the annuitant who is aged 65 or older with a spouse who is aged 70 or older, the maximum annuity on which no tax would be levied is 3.05 million yen (about US$29,000).

In a Tax Qualified Pension plan, annuity benefits after excluding the amount equal to employee contributions are subject to the same tax as on an Employees' Pension Fund plan. Book reserve plans do not pay annuity benefits; so that tax question does not arise for them.

Taxation of Lump Sum Benefits

An Employees' Pension Fund plan must pay a life annuity for those benefits that are contracted out from the Employees' Pension Insurance social security program. However, in Tax Qualified Pension plans, 93 percent of all plans have a lump sum benefits option, and more employees take that option than take annuity benefits. The popularity of lump sum benefits arises in part because the tax law provides more favorable tax treatment of lump sum benefits than of annuities. The taxable amount is calculated as follows:

\[ \text{Taxable amount} = \frac{\text{lump sum benefit} - \text{deduction amount}}{2} \]

Some analysts feel that this preferential tax treatment of lump sum benefits is undesirable because annuity benefits would be better for employees. Often employees have little knowledge as to how to invest their lump sum benefits.

Financing

Private pensions in Japan are funded mainly by employer contributions. In 1988, cash wages were on average 84 percent of employers' total labor costs and other aspects of compensation accounted for the remaining 16 percent. Cash wages are divided into the regular monthly salary, which is 75 percent on average, and the twice a year bonus, the remaining 25 percent.

Private pensions are on average 4.2 percent of employers' total labor costs. This 4.2 percent is divided into the costs for book reserve plans (2.6 percent), the costs for Employees' Pension Fund plans and Tax Qualified Pension plans (1.6 percent), and the costs for Smaller Enterprise Retirement Allowance Mutual Aid plans and other plans (0.1 percent).

Private pension plan costs are a larger share of labor costs in large companies than in small companies. For companies with 5,000 or more employees, pension plan costs average 6.2 percent of total labor costs,
and book reserve costs average 4.2 percent. For companies with 30 to 99 employees, private pension costs average 2.1 percent and book reserve costs average 1.1 percent.

For Smaller Enterprise Retirement Allowance Mutual Aid plans, companies with 100 to 299 employees pay 0.3 percent of their total labor costs for those plans.

As a share of total private retirement income costs, book reserve costs have decreased from 72 percent in 1975 to 61 percent in 1988. Costs for Employees' Pension Fund plans and Tax Qualified Pension plans have increased from 27 percent in 1975 to 37 percent in 1988.

Employees' Contributions

In 1989, for firms with 1,000 or more employees, employee contributions were made in 10 percent of Tax Qualified Pension plans and 16 percent of non-tax-qualified plans. In 35 percent of Employees' Pension Fund plans, employees contributed above the minimum required for contracting out. Employees may voluntarily contribute in order to increase their benefits. Employees' contributions are commonly 25 percent to 35 percent of the total (employer and employee contribution).

The average share employee contributions were of total contributions was 31 percent in Tax Qualified Pension plans, 33 percent in Employees' Pension Fund plans, and 25 percent in non-tax-qualified plans. Between 1981 and 1989, there was little change in the percentage of Employees' Pension Fund plans with employee contributions, but the percentage of plans with employee contributions decreased in Tax Qualified Pension and non-tax-qualified plans.

In Tax Qualified Pension plans for employers of all sizes (including small employers), 5.4 percent had employee contributions in 1981 and 4.8 percent had employee contributions in 1989. Employee contributions were more common in large plans. In 1989, they occurred in 10 percent of plans with 1,000 or more employees, and in 5 percent of plans with 30 to 99 employees. The average employee contribution was 27 percent of total contributions, with the figure being 31 percent in plans with 1,000 or more employees and 23 percent in plans with 30 to 99 employees.

Assets in Private Pension Plans

Over the past 30 years, assets in private pension plans have grown rapidly. The assets in private pension plans have increased from 6.7 trillion yen (US$ 22 billion) in 1975 to 59.9 trillion yen (US$ 475 billion) in 1992, an increase valued in yen of 890 percent.
Private pension assets have also grown in importance relative to total financial assets in Japan. At the end of fiscal year 1992 total assets in financial institutions equaled 1,488 trillion yen (US$ 14.1 trillion), and the assets in life insurance companies were 152 trillion yen (US$ 1.4 trillion). The percentage of total financial assets accounted for by private pension plans has increased to 4.0 percent of all financial assets and to 39.5 percent of the financial assets of the life insurance industry.

The book value of book reserve plans has increased from 4.2 trillion yen (US$ 14 billion) in 1975 to 12.7 trillion yen (US$ 100 billion) in 1992, an increase valued in yen of 300 percent. Assets in Tax Qualified Pension plans have increased from 1.0 trillion yen (US$ 3 billion) in 1975 to 15.0 trillion yen (US$ 119 billion) in 1992, an increase valued in yen of 1,500 percent. Assets in Employees' Pension Fund plans have increased from 1.5 trillion yen in 1975 (US$ 5 billion) to 32.2 trillion yen (US$ 255 billion in 1992), an increase of 2,150 percent. The value of book reserves has decreased as a percentage of total pension assets from 63 percent in 1975 to 21 percent in 1992, while the assets in Tax Qualified Pension and Employees' Pension Fund plans have increased from 37 percent to 79 percent.

Financial Institutions

The major financial institutions that manage pension plans and invest pension assets are life insurance companies and trust banks. In 1982, Employees' Pension Fund plans were managed 24 percent by life insurance companies and 76 percent by trust banking companies. In 1993, the shares were 36 percent for life insurance companies, 62 percent for trust banks, and 2 percent for investment adviser companies.

In 1982, Tax Qualified Pension plans were managed 47 percent by life insurance companies and 53 percent by trust banking companies. In 1993, the shares were 56 percent for life insurance companies, 43 percent for trust banking companies, and one percent for investment adviser companies.

As financial markets have been deregulated, banking and security companies have entered the business of managing private pension funds by establishing investment advisor trust banking companies. This has increased competition among financial institutions that manage pension funds.

Accounting Rules for Pension Plans

Perhaps the most important problem in the management of Japanese public and private pension plans is to establish an economically meaningful accounting systems (Watanabe 1992). In Japan, good accounting
rules for pension systems have not yet been established. Contrary to United States accounting practice, pension assets are measured based on their historical or book value rather than their market value. This type of accounting makes it impossible to measure the financial situation of pension plans accurately in periods when security prices and currency exchange rates are changing. It also makes calculating meaningful rates of return difficult.

The Japanese stock market dropped dramatically from its peak of about 40,000 yen on the Nikkei Dow Jones at the end of 1989 to about 20,000 yen at the end of January 1994. This decline has had a large negative effect on not only financial institutions but also pension assets. News reports have indicated that pension assets with trust banks have suffered losses of more than 10 percent.

Statutory Guidelines for Pension Asset Management

For Employees' Pension Fund plans, each plan and each trust bank must comply with the following restrictions on the asset mix of the portfolio:

- Assets with guaranteed principal: >50 percent
- Equities: <30 percent
- Foreign currency denominated assets: <30 percent
- Real estate: <20 percent

These percentages are based on the book value of the assets. These percentages limit the ability of plans to achieve higher returns through investment in equities. Recently the Pension Fund Association, the association of Employees' Pension Fund plans, proposed to the government that these rules be abolished in order to allow pension funds to take on greater risk and receive greater expected return.

Control of Financial Risks

As just discussed, perhaps the most important change that needs to be made in Japan concerning the control of financial risks in the pension system is to move to a market value accounting system. With the current historical value accounting system it is not possible adequately to assess the financial risks facing plans.

Contrary to the regulation of United States private pension plans, Japanese plans are not required to be managed independently of the sponsoring company. This is a source of financial risk to pension plans (Watanabe 1993b). One main reason why independence has not been established is that fiduciary laws are not well developed in Japan. In
addition, a Tax Qualified Pension plan is not a separate legal entity, but is only a contract between the employer and the company labor union, and enjoys little legal protection. Finally, an Employees’ Pension Fund plan is a separate legal entity from the employer, but it has little legal protection.

There are also social reasons why pension plans in Japan have received little legal protection. One is that employers have not understood the importance of pension plans and have treated them as another account of company money. In addition, labor unions have not understood the importance of pension plans. They have focused on reforming social security plans but have devoted little attention to private plans. Finally, the government has rigidly regulated Employees’ Pension Fund plans. Many high level government employees from the Health and Welfare Department have taken positions as managing directors of Employees’ Pension Fund plans after retiring from the government. These employees know the legal regulations concerning Employees’ Pension Fund plans, but have little knowledge about managing investments.

Thus, the financial institutions that manage pension money have been chosen mainly by employers. Employers expect the financial institutions that manage their pension assets to provide favorable treatment for the other financial activities of the firm, but have been less interested in securing the best performance for their pension fund investments.

For Tax Qualified Pension plans there are no special regulations. They are regulated only by general civil laws. The Employees’ Pension Insurance law section 125-2 regulates the responsibility of the Employees’ Pension Fund plans director. However, the regulation is weak.

One aspect of pension risk is the risks associated with job change. As for pension benefits for job changers, the Pension Fund Association runs a unique pension clearinghouse. The Pension Fund Association was established by the Health and Welfare Department in 1967 as a separate legal entity. The Employees’ Pension Insurance Law regulates the management and administration of pension benefits for withdrawing Employees’ Pension Fund plan members. There is no pension clearinghouse, however, for Tax Qualified Pension plans.

Pension Insurance

The median monthly pension benefit in Tax Qualified Pension plans has grown from 62,000 yen in 1989 (US$ 449 a month or US$ 5,400 a year) to 71,000 yen in 1992 (US$ 563 a month or US$ 6,800 a year). The percentage of monthly benefits exceeding 100,000 yen has grown from 19 percent in 1989 to 28 percent in 1992. In 1991, the average annual benefit from an Employees’ Pension Fund plans was 481,000 yen (US$ 3,600). For single company plans, the average was 911,000 yen (US$ 6,700). For
allied company plans, it was 516,000 yen (US$ 3,800). For multi-employer plans, it was 285,000 yen (US$ 2,100).

As private pension plans have developed, guaranteeing pension benefits for employees has become one of the most important problems (Watanabe 1989). Following the rapid increase in asset prices of the bubble economy of the late 1980s, the number of bankrupt companies has grown.

The financial situation of trust banking companies, which manage pension funds, has grown weaker, as has that of the life insurance industry. Since 1966, when Employees’ Pension Fund plans were established, the life insurance industry has guaranteed the investment rate of return of 5.5 percent for Employees’ Pension Fund plans. By government regulation, the guaranteed rate is the same for all companies. Starting on April 1, 1994, the industry has dropped the rate to 4.5 percent. But there is growing criticism of the fixed rate and growing support for deregulation, so that the guaranteed rate would not be set by law but rather all companies could decide on their own rates.

The Ministry of Finance has indicated it intends to establish a Guarantee Fund for protecting insurance consumers starting in 1995. This would be the first time such a fund has existed in Japan.

Lump Sum Retirement Plan (Book Reserve Plan)

After the recession following the oil shock of 1973, company bankruptcies increased. Many employees lost their jobs, and firms could not pay their unpaid wages and lump sum retirement benefits. The regulations of bankruptcy law, labor law, and commercial law were insufficient to protect workers.

To solve this problem, in 1976 a law guaranteeing wages was enacted. Through it the government guarantees 80 percent of unpaid wages. For the lump sum retirement benefit the law requires the employer to guarantee the amount through a contract with a financial institution.

Because of insufficient regulations, most employers do not guarantee their book reserve plans. The percentage of employers who guarantee their book reserve plan through a financial institution has increased from 12 percent in 1981 to 24 percent in 1989. For employers with 1,000 or more employees, only 16 percent guarantee their book reserve plan through a financial institution. The percentage is higher for smaller employers—24 percent the employers with 30 to 99 employees.

Tax Qualified Pension Plan

By corporate tax law, when an employer goes bankrupt, the present value of a Tax Qualified Pension plan would be paid to the employee. However,
Tax Qualified Pension plans do not have a pension insurance system. This is perhaps the most serious problem to be solved concerning Tax Qualified Pension plans.

Employees' Pension Fund Plan

The Pension Guarantee Program established in 1989 only insures Employees' Pension Fund plans. The guarantee program is managed by the Pension Fund Association. Employees' Pension Fund plans are required to participate in the insurance program. Under this program an Employees' Pension Fund plan can be terminated with insufficient assets only if the sponsoring company declares bankruptcy, the business of the sponsoring company or the industry deteriorates, or other unavoidable circumstances occur under which continuation of a fund is deemed to be extremely difficult.

The level of contributions to the pension benefit insurance program are computed for different sizes of plans on the basis of the statistical likelihood by size group of plan termination with an unfunded liability. The required contributions are roughly proportional to the number of participants in the pension plan, with the contribution per participant decreasing gradually as the number of participants increases. The amount of the required contribution is recalculated every year based on the average number of participants in the plan in the previous year. Total contributions were 766 million yen in 1992.

As of 1994, only one plan had terminated since establishment of the benefit insurance program (Table 1). Because the terminated fund had sufficient assets for financing 1.3 times the substitutional component of the Employees' Pension Fund plan, no claim was made on the insolvency insurance program.

After three years of the Payment Guarantee Program, the first actuarial valuation of funding levels was carried out on March 31, 1992. As a result of the actuarial valuation of liabilities in comparison to the book value of assets, the required contribution per member of all funds was calculated to be unchanged from its previous level.

Conclusion

Japanese private pension plans have grown rapidly but serious problems need to be addressed. These include establishing better accounting rules using market valuation of assets, establishing better fiduciary responsibility rules, and abolishing the rigid regulation of pension investments with fixed maximum and minimum percentage asset allocations. With
TABLE 1 Number of Terminated Employees’ Pension Fund Plans, 1975–1992

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Number of Funds (FY End)</th>
<th>Terminated Funds</th>
<th>Number of Cases Guaranteed under Insurance Program</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975</td>
<td>929</td>
<td>2</td>
<td>-</td>
</tr>
<tr>
<td>1980</td>
<td>991</td>
<td>4</td>
<td>-</td>
</tr>
<tr>
<td>1985</td>
<td>1,091</td>
<td>2</td>
<td>-</td>
</tr>
<tr>
<td>1989</td>
<td>1,358</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1990</td>
<td>1,474</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>1991</td>
<td>1,593</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1992</td>
<td>1,735</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Note: Four funds would have made a claim on the insurance program out of 16 funds terminated before 1989, if the Payment Guarantee Program had existed.

Population aging placing financial pressure on public social security plans, private pension plans will be asked to play a larger role in providing retirement income in the future.

Notes

1 Monetary figures for different types of retirement plans are quoted as of March 31 of the year.
2 Following the Meiji revolution, Japan reestablished trading and cultural ties with the West. During the preceding Tokugawa era, Japan had been largely closed to the West.
3 The terminology may be confusing for U.S. readers because both Tax Qualified Pension plans and Employees’ Pension Fund plans receive preferential tax treatment.
4 A prefecture is a governmental unit corresponding to a county.
5 There are three types of these plans: (1) Ippan-zaikai—a general savings plan; (2) Zyunyaku-zaikai—saving for buying a house; (3) Zaikai-nenkin—a defined contribution annuity plan. The available data do not separate out the asset amounts in the different types of plans.
6 In contrast to U.S. statistics on labor costs, paid holidays are not included in the statistics about labor cost in Japan.

References

Noriyasu Watanabe has done an excellent job of providing a brief, up-to-date review of private pensions in Japan. His analysis provides a nice review of the basic characteristics of the Japanese employer pension system. He notes that Japanese pensions are virtually all defined benefit plans and that the development of the pension system has occurred since 1960. There are two primary types of pensions in Japan: Tax Qualified Pension plans (TQP), first established in 1962, and Employees' Pension Fund plans (EPF), established in 1966. The TQP plans are similar to United States-style pensions and are used primarily by small employers. EPF plans are based more on the British concept of pensions and require firms to contract out of the national social security system. EPF plans pay a benefit that replaces the earnings-related component of social security. The total pension benefit must be at least 30 percent greater than the social security benefit that has been replaced.

The Tax Qualified Pension plans are overseen by the Ministry of Finance. Firms with as few as 15 workers can establish a TQP. Employees' Pension Fund plans are overseen by the Ministry of Health and Welfare. EPF plans are primarily adopted by large firms. A single employer must have at least 500 workers to establish an EPF. Watanabe relates many important details concerning the administration of both types of plans and provides considerable coverage and financial data. He also notes how the pension system was developed in conjunction with the traditional lump sum severance system. In addition, Watanabe includes a brief assessment of the Japanese social security system.

I have relatively few comments concerning what is actually said in the chapter. In my remarks I will place this review of Japanese pensions into a broader context of political, economic, and demographic changes that are now unfolding. My comments examine problems facing private pensions, identify several puzzles concerning pensions and labor market activity, and finally, venture some predictions for the further development of employer pensions. I will do better on identifying the problems and
puzzles than in making accurate predictions. The main objective of my comments is to provide a broader context in which to examine the continued development of Japanese pensions. International comparisons are an excellent method of extending our knowledge base and considering a more diverse set of policies prior to adopting them.

Analysis of Trends

One criticism of the Watanabe chapter is that it does not link changes in the population age structure, labor market institutions, and social policies to likely changes in employer pensions. Several key developments must be examined if we are to understand the future of Japanese pensions.

First, major demographic shifts are occurring in Japan. The Japanese population is the most rapidly aging developed country in the world. If maintained, current fertility and mortality rates will lead to a declining population in the first half of the next century. How will these changes alter employer pensions?

Second, significant changes are occurring in the social security system. Major changes include efforts to raise the age of eligibility for retirement benefits and projections of rapidly increasing tax rates to support the system. How will these changes alter employer pensions?

Third, the industrial relations system is continuing to evolve in response to demographic and political pressures. Mandatory retirement ages are being increased, the importance of seniority-based pay systems is declining, and new employment policies for older workers are being introduced. How will these changes affect employer pensions?

Population Aging in Japan

The population of Japan is aging extremely rapidly. In 1950, only 5 percent of the population was 65 and older. By 1990, this proportion had increased to 13 percent. Watanabe reports that current projections indicate that over one-fourth of the Japanese population will be 65 and older by 2025. This rapid aging of the population will require substantial modifications of the social security programs and the system of industrial relations.

Current projections indicate that the payroll tax rate necessary to support currently promised benefits will increase from 14.5 percent to 35 percent within 35 years. The pressure of the increasing cost of social security programs has led the government to introduce legislation to raise the age of eligibility for full benefits in the Employees’ Pension Insurance system from 60 to 65. This change would reduce the required tax increase by approximately five percentage points.
In addition, the projected cost increases have influenced social policies toward work and retirement. The government is encouraging later retirement by subsidizing employment programs for the elderly and pressing firms to increase their mandatory retirement ages to 65. How will firms respond to these changes? Will firms modify their pensions in response to later social security retirement ages and higher payroll taxes?

The industrial relations system is also adjusting to the aging of the population. There is a decline in the use of seniority-based pay increases and a greater reliance on merit pay systems. Turnover rates appear to be increasing, and the prevalence of lifetime employment is declining. Even as they have raised the ages for mandatory retirement, firms have attempted to encourage earlier retirement from career jobs. The Japanese pension system was built around lifetime employment with a single firm coupled with an early age of mandatory retirement. How will employer pensions adjust to these changes in compensation?

Japanese Social Security and Employer Pensions

United States business leaders, politicians, and scholars often are amazed at the extent of the Japanese retirement system. Many believe that Japanese workers have little or no retirement income. They believe that this explains why older Japanese continue to work. They believe that it explains some of the cost advantages of Japanese firms. And finally, many believe that this is one of the reasons why Japanese save so much.

Watanabe clearly demonstrates that this perception is wrong. Coverage by the social security systems is almost universal and coverage rates by employer-based retirement plans exceed those in the United States. Almost 90 percent of the Japanese labor force is covered by an employer pension or a lump sum severance plan. In recent years there has been a trend toward greater use of pensions and less reliance on traditional lump sum payments. Currently about half of all workers are participating in an employer pension plan—a pension coverage rate similar to that in the United States.

The social security system provides replacement ratios to retired workers comparable to those provided by the social security system in the United States. The average monthly benefit paid from this system in 1991 was 150,000 yen, or approximately US$ 1,500 at 1994 exchange rates. Watanabe reports that the median monthly benefit paid by Tax Qualified Pension plans was 71,000 yen in 1992, or around US$ 700. In contrast, the 1991 median monthly benefit from Employees’ Pension Fund plans was 481,000 yen, or approximately US$ 4,800.

Why are so many foreign observers ignorant of the Japanese system? Perhaps this misunderstanding of the Japanese retirement system is due
to the relatively recent development of social security and employer pensions. The Employees' Pension Insurance system (the social security system that covers most private employees) was established in 1941, while the National Pension system (the social security system that covers self-employed, spouses, and family workers) was only established in 1961. As noted above, employer pension plans date only to the 1960s.

Watanabe shows that social security payments provide a significant base of retirement income for all Japanese workers and that employer pensions add a significant supplement to retirement income for many workers. Despite this system of retirement income, labor force participation rates in Japan are the highest in the developed world. Over one-third of Japanese men 65 and older remain in the labor force compared to 16 percent of older men in the United States and only 3 to 5 percent in western Europe. These data are the basis for a puzzle concerning individual behavior in Japan. Why are the labor force participation rates for older Japanese so high compared to other developed countries if their retirement income is comparable?

Evolving Industrial Relations System

In response to the aging of the population, the Japanese system of employee compensation and lifetime employment is changing. The use of seniority-based pay is declining, especially for older workers. An increasing number of firms have introduced merit pay systems to replace or supplement the traditional seniority pay systems. As a result, the age earnings profiles for career employees is becoming flatter.

Mandatory retirement is an integral component of the Japanese system of industrial relations. Approximately 90 percent of all firms have mandatory retirement policies. Twenty-five years ago, 55 was the most prevalent age for compulsory retirement. Over time, the age set by most firms has increased, with 60 now being the modal mandatory retirement age. Virtually no firms have ages higher than 60. The government is actively encouraging firms to increase the age of mandatory retirement to 65. If firms comply, how will employer pensions adjust?

Even as mandatory retirement ages have increased, firms have been known to encourage early retirement. Some workers are transferred to client firms or subsidiaries while others are given dead-end jobs as encouragement to retire. Will pensions be modified to further encourage the trend toward earlier retirement from career jobs in Japan?

It is puzzling how a country where most firms impose mandatory retirement at relatively young ages has such a high labor force participation rate among older persons. Such high work rates are due, in part, to several institutional factors. First, many firms reemploy workers after they
have been mandatorily retired. The “retired” workers are typically employed in lower status jobs at lower wages. Such activities are permitted in Japan since there are no age discrimination laws. Workers are also outplaced to client firms and subsidiaries. Thus, the “retiree” finds new employment while these smaller firms gain access to quality older workers.

The continued aging of the population will require further changes in the industrial relations system in Japan. Compensation policy will also be changed. A key factor influencing retirement patterns and the economic well-being of the elderly is how firms will modify their pension plans in response to these events.

Conclusions and Predictions

The future of employer pensions in Japan depends on how plan sponsors adjust their retirement plans to the changes described above. Some trends are clear, while others are still uncertain.

Japan will lead the developed countries in facing the super aging of the population. In the next 20 years, Japan will confront a rapid increase in its elderly population. As a result, the costs of social security programs will skyrocket. Payroll taxes will sharply increase. The age of eligibility for unreduced social security benefits will be increased to 65 if not higher in the first quarter of the twenty-first century.

Firms will continue to develop new human resource policies to cope with an aging labor force. The entire system of lifetime employment along with its compensation policies will be reconsidered. A fundamental conflict between the government and private employers will continue to increase in intensity. The government will accelerate its efforts to promote the employment of older workers and to get firms to raise the age of mandatory retirement to at least 65. Employers will increase their efforts to accommodate an aging workforce and to encourage early retirement. How will these conflicting desires be resolved in the future? What will be the effect of policy changes on employer pensions?

Answers to the questions posed throughout these remarks will determine the future of employer pensions in Japan. Changes in the population age structure will occur. In response to the aging of the population, social policies will be revised. Within this framework, employer pensions will surely be amended to conform to the new national norms.