

## **Civil Service Pension Arrangements in Japan**

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### **1. Introduction**

The civil service pension arrangements in Japan are in a transitional phase where they have been reformed into schemes very similar to social security pension schemes for private employees for the last three decades. There are still several differences between them. However, as a result of the equalization efforts, the existing differences are relatively small in comparison with many other countries in the world. Main differences are the benefit level and the contribution rates. The retired civil servants receive flat-rate old-age basic pensions plus career average earnings-related benefits. The earnings-related benefits are 20% larger than those for retired private employees<sup>1</sup>. The contribution rates are decided based on actuarial valuations and it is 15.508% for civil servants for the period from September 2010 to August 2011 while it is 16.058% for private employees.

The ultimate goal may be to cover the civil servants under the same scheme as that for private employees and the situation is almost ready for such unification if a strong political

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<sup>1</sup> The indexation for the benefits is exactly the same as that for private employees.

leadership exists. Actually the former government parties submitted a bill to the Diet in 2007 to extend the coverage of the social security pension scheme for private employees to civil servants and it was about to be realized when the government parties lost majority of the Upper House for other reasons in the same year and the bill was eventually nullified. However it would be possible to try it again if the politicians decide not to use pension matters as a political football.

There is no scheme for military persons in Japan since the Constitution declares that Japan abandons armed forces and there is no military person in the country. There are self-defense forces and they have members. They are, however, treated in the same way as the national government employees and are covered by the same pension arrangement as the national government employees.

The financial outlook of the civil service pension arrangements in Japan is projected to be sustainable as long as the size of civil servants in the population aged between 15 and 64 is kept as it will be after the current schedule or tendency of reducing the number of civil servants (both national government employees and local government employees) continues until FY 2014<sup>2</sup> and not reduced dramatically afterwards. The 2009 actuarial valuation shows that the ultimate contribution rate of the civil service pension scheme is projected to be 19.8% shared half and half by the national and local governments as employers and the civil servants, which can be deemed to be sustainable<sup>3</sup>.

On top of the pension arrangements, civil servants are provided with the retirement lump-sum benefits as with many of private employees. While the retirement lump-sum benefits are converted totally or partially into pensions for private employees, they are only in the form of lump-sum and there is no occupational pension plans for civil servants in Japan. According to the survey conducted by the National Personnel Authority in 2006, the benefit level of the retirement lump-sum plan for civil servants is almost the same as the average level of the retirement lump-sum benefit plans of companies with no less than 50 employees<sup>4</sup> if the present value of the difference of the earnings-related benefits between the civil service pension arrangements and the social security pension scheme for private employees as described above is computed and included in the retirement lump-sum benefit level.

These are the features of the civil service pension arrangements in Japan. In this paper we look into them in detail, sort out the problems to be solved and envisage the future prospect.

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<sup>2</sup> The fiscal year starts in April and ends in March in Japan.

<sup>3</sup> The pension scheme for national government employees is called the Mutual Aid Association for Government Employees and the one for local government employees is called the Mutual Aid Association for Local Government Employees. They are separate legal entities, but they have been financially unified since 2004. There is financial interchange framework that essentially makes their financing a single unit. The contribution rate is the same for both national government employees and local government employees.

<sup>4</sup> The average was taken for those employees who worked for the same company for at least 20 years.

## 2. Social security pension framework in Japan

Before we start describing the civil service pension arrangements, we would like to describe briefly the current social security pension schemes in Japan to give a proper framework for discussion. Although there are some differences between the civil service pension arrangements and the social security pension schemes for private employees, we include the civil service pension arrangements in the framework of social security pension schemes. One reason is that the differences are small. Another reason is that actually they cooperate in financing the basic pension benefits.

### (1) Coverage

Every resident of Japan aged between 20 and 59 is compulsorily covered by the National Pension (NP) scheme. If he/she is an employee in the private sector, he/she is covered by the Employees' Pension Insurance (EPI) scheme as well. This coverage is also compulsory. If he/she is an employee in the public sector like the national government, the local governments, etc., he/she is compulsorily covered by one of the mutual aid associations (MAA's)<sup>5</sup>. There are three MAA's: MAA for government employees, MAA for local government employees, and MAA for private school employees<sup>6</sup>. **Fig. 2-1** shows the structure of coverage of the social security pension schemes in Japan.

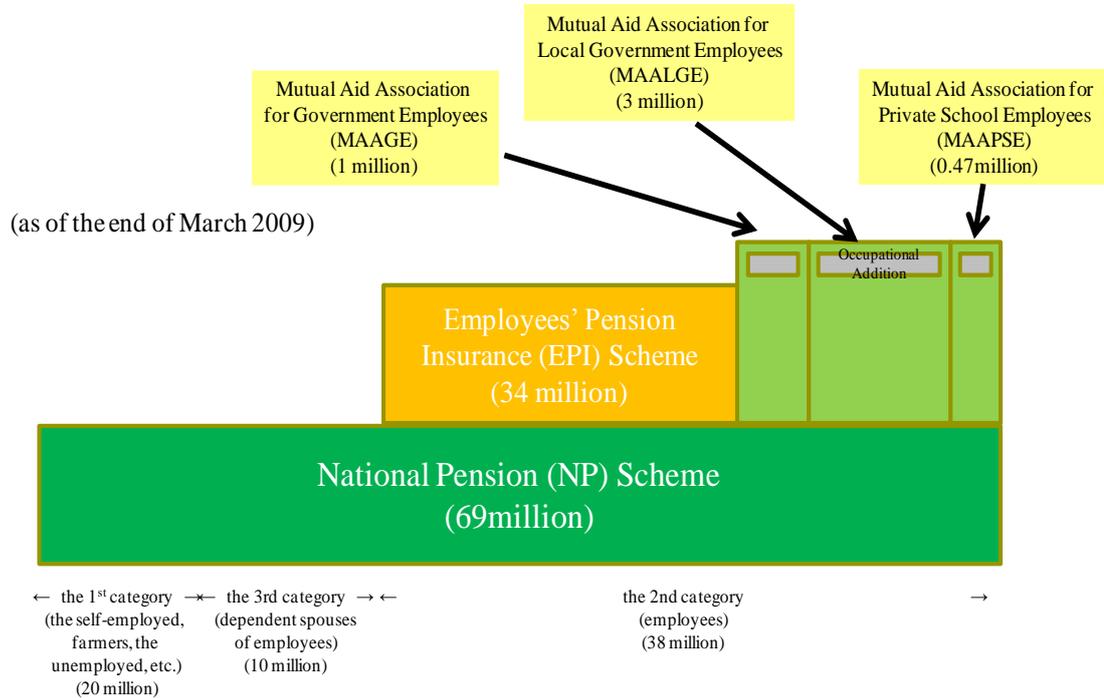
The active people covered by the NP scheme are classified into three categories. Self-employed people, farmers, fishermen, etc. belong to the first category. Their dependent spouses are included in this group. Those covered by the EPI or one of the MAA's are classified as in the second category. Their dependent spouses form the third category.

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<sup>5</sup> An MAA is also referred to as an MAA scheme.

<sup>6</sup> When we wish to refer collectively to the MAA scheme for Government Employees and to the MAA scheme for Local Government Employees, we use a phrase such as the MAA schemes for civil servants or the civil service pension arrangements. .

**(Fig. 2-1) Social Security Pension Schemes in Japan**



**(2) Benefits**

The NP scheme provides flat-rate basic pensions; the annual amount of benefit is proportionate to the ratio of the number of covered months to 480 months (1 at the maximum), irrespective of what his/her income has been. The current annual amount for a beneficiary with 480 months of contributions is JPY 792,100 as of 1 April 2010.

The EPI and MAA schemes provide earnings-related pensions; the annual amount of old-age benefit that the EPI scheme provides is 5.481% of the average of the pensionable remunerations during the covered period multiplied by the number of covered months. The average of the pensionable remunerations is defined to be the sum of the average of the monthly pensionable remunerations and the average of pensionable bonuses. The average of the pensionable bonuses is the sum of the pensionable bonuses divided by the number of the covered months. **Fig. 2-2** shows the formula to calculate the benefit amount of the old-age earnings-related pension benefit of the EPI scheme.

**(Fig. 2-2) Benefit Formula for Earnings-related Part**

$$\boxed{\text{The annual amount of benefit (Earnings-related pensions)}} = \boxed{\text{The average of the pensionable remunerations (Revalued)}} \times \frac{5,481}{1000} \times \boxed{\text{The number of covered months}}$$

The annual amount of old-age benefit<sup>7</sup> that the MAA schemes provide is 1.2 times as much as the amount calculated by the formula shown in **Fig. 2-2**. In other words the beneficiaries of MAA schemes receive 20% more than those of the EPI scheme do. This part of the 20% increment is called the occupational addition of MAA schemes. It is indicated in **Fig. 2-1**. The reason why such occupational addition exists is that the benefits of the MAA schemes have the nature of social security pension benefits as well as of civil service remunerations<sup>8</sup> that compensate for the economic loss due to the constraints imposed upon civil servants. The occupational addition has been one of the main causes of the claim that there is inequality between the EPI scheme and the MAA schemes. The claim is what we call the pension jealousy discussion.

The monthly pensionable remunerations and the pensionable bonuses are revalued according to the increase of disposable income of the active workers so that the benefit is indexed to the improvement of the active workers' disposable income level up until the beneficiary reaches the age of 65. After the age of 65, the benefit is indexed to the increase of the Consumer Price Index (CPI).

The social security pension schemes in Japan are thus composed of two layers for employees, providing flat-rate benefits and earnings-related benefits respectively. Self-employed people are, on the other hand, provided with only flat-rate benefits.

The pensionable age is now 60 for the earnings-related part of the schemes for employees whereas it is 65 for the old-age basic pension benefit. It is, however, to be raised gradually to 65 for the earnings-related part by the year 2025 for men and 2030 for women in the case of the EPI scheme. In the case of the MAA schemes it is to be raised gradually to 65 by the year 2025 for both men and women.

### (3) Pensionable remunerations

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<sup>7</sup> Reflecting the nature as occupational pension schemes, it is actually called retirement annuity in the laws. In this paper, however, we call it the old-age pension benefit of MAA schemes.

<sup>8</sup> Private school employees are not civil servants, but they claimed, when the MAA for Private School Employees was established in 1954, that their jobs were the same as the employees in the schools run by the national government or by the local governments and that they should be treated in the same way as civil servants. After the introduction of the scheme, they have followed almost the same reforms as those of the MAA schemes for civil servants.

An employee's monthly pensionable remuneration is the average of his/her monthly salary or wages paid in April, May and June. It is applied from September until August of the next year. If his/her monthly salary or wages change sharply, then his/her monthly pensionable remuneration is also changed. There is a lower limit and an upper limit for the monthly pensionable remunerations. They are JPY 98,000 and JPY 620,000 respectively. The pensionable bonus is the amount of bonus with the upper limit of JPY 1,500,000. This is applicable both to the civil service pension arrangements and the EPI scheme for private employees.

#### (4) Contributions

The insured people of the first category pay flat-rate contributions to the NP scheme. The contribution rate for the FY 2010 for this group is ¥15,100 per month. The insured people of the first category with low income or no income at all may be partially or totally exempted from paying their contributions with benefits for such periods reduced according to the degree of exemption.

The insured people of the second category pay contributions proportionate to their pensionable remunerations to either the EPI scheme or one of the MAA schemes. The present contribution rates of these schemes are indicated in **Table 2-1**. The contributions are paid half and half by the employees and the employer(s). The contribution rates of the MAA schemes include the portion for the occupational addition. Taking account of the occupational addition, we can see that the contribution rates of the MAA schemes for civil servants are a bit lighter than that of the EPI scheme and the contribution rate of the MAA for Private School Employees is much lighter than any other schemes for employees. It is partly due to the fact that professors of private universities usually retire at age 70 or so, making it unnecessary to pay the earnings-related old-age benefits to them.

**(Table 2-1) Contribution Rates of the Schemes for Employees**

(as of January 2010)

scheme	contribution rate (%)
the EPI scheme	16.058
the MAA for Government Employees	15.508
the MAA for Local Government Employees	15.508
the MAA for Private School Employees	12.584

The insured people of the third category, namely dependent spouses of employees, do not have to pay contributions though each insured month as a category 3 person is considered to be a

month in which he/she has paid the contribution to the NP scheme. Accordingly a person with 40 years coverage by the NP scheme totally as category 3 can receive his/her old-age basic pension benefit in the full amount though he/she has never paid contributions. As seen in the following paragraph, the contributions are effectively made for them by the schemes which cover their spouses.

#### (5) Financing the basic pension expenditure

The benefit expenditure of the basic pensions is managed by the Basic Pension Sub-account of the Pension Special Account. It is financed by transferring the designated amount of money from each of the schemes to the Sub-account. **Fig. 2-3** shows the flow of the financial resources for the basic pension expenditure. The designated amount of money for a scheme is the total amount of annual expenditure of the basic pensions multiplied by the ratio of the number of the active people aged between 20 and 59 covered by the scheme plus the number of their dependent spouses aged between 20 and 59 to the total number of active people aged between 20 and 59 throughout the schemes plus the number of their dependent spouses aged between 20 and 59. In other words, the total amount of annual expenditure of basic pensions is shared by each of the schemes proportionately to the number of active people aged between 20 and 59 covered by the scheme and their dependent spouses aged between 20 and 59.

In calculating the designated amount of money, the insured people of the first category are deemed to form one group and the National Pension Sub-account of the Pension Special Account transfers the designated amount of money to the Basic Pension Sub-account. The National Pension Sub-account collects contributions from the insured people of the first category.

In this way, the financing of the basic pension benefits is immune to changes in the industrial structure though it is still dependent on the demographic structure. When the designated amount of money is transferred from each scheme to the basic pension account, the portion of the amount is subsidized from the general revenue for each scheme<sup>9</sup>. This is shown in **Fig. 2-3** as each scheme has the national subsidy from the general revenues as well as the contributions from employers and employees. As a result, the portion of the benefit expenditure of basic pensions is subsidized by the general budget.

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<sup>9</sup> The rate was 1/3 until FY 2005 but is now 1/2 since FY 2009. The government is discussing what the financial resources should be. Raising the consumption tax rate is a possible candidate.

**(Fig. 2-3) Financing the Basic Pension Benefits**

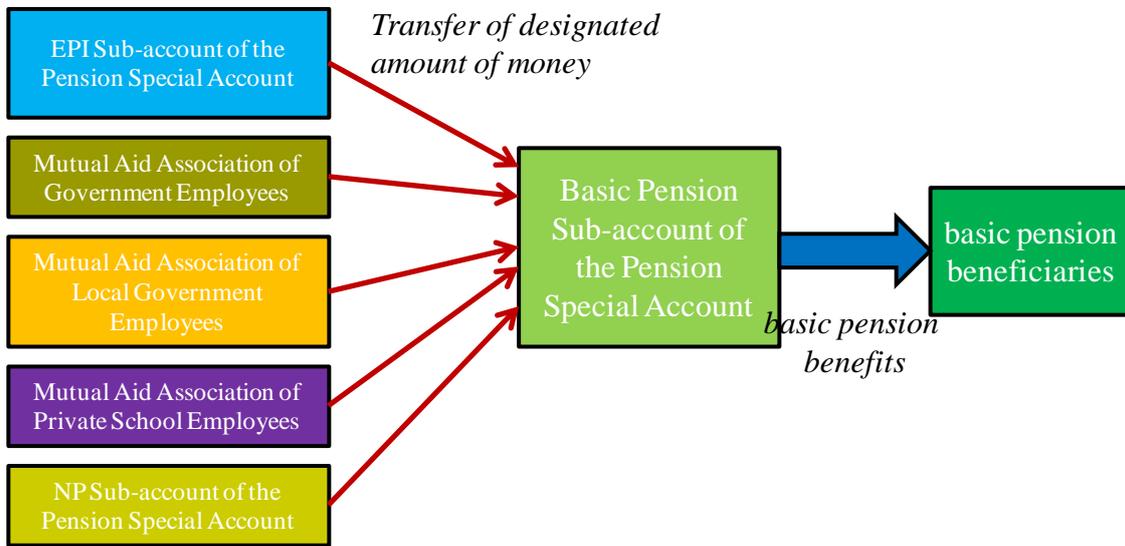


Table 2-2 shows the actual amount of money transferred from each scheme to the Basic Pension Sub-account as financial resources for basic pension benefits.

**(Table2-2) Amount of Money Actually Transferred**

(FY 2008; JPY in trillion)

Scheme	Amount transferred
Total	19.26
the EPI scheme	13.32
MAA for Government Employees	0.45
MAA for Local Government Employees	1.20
MAA for Private School Teachers	0.17
NP scheme (NP Sub-account)	4.12

We summarize the basic statistics of the schemes for employees in Table 2-3. From this we see that the civil service pension arrangements have accumulated fairly large size of reserve fund.

**(Table 2-3) Basic Statistics of the Schemes for Employees**

(at the end of FY 2008)

scheme	number of	number of	(1)/(2)	average monthly amount	size of	Fund
	active participants (1)	old-age beneficiaries (2)		of old-age benefits	reserve fund	
	(in ten thousand)	(in ten thousand)		(JPY in thousand)	(JPY in trillion)	
the EPI scheme	3,444	1,324	2.60	164	116.6	4.6
MAA for Government Employees	105	67	1.58	219	8.2	6.4
MAA for Local Government Employees	295	175	1.69	227	36.2	10.0
MAA for Private School Employees	47	11	4.49	214	3.2	9.8
Total	3,892	1,576	2.47	174	164.2	5.3

(Note1) The average monthly amount of old-age benefits includes the beneficiaries' basic pension amount, but does not include their spouses' basic pension amount.

(Note2) Fund ratio means the ratio of the size of reserve fund to the annual benefit expenditure of the scheme.

#### (6) Brief history of social security pension schemes in Japan

As in many other countries, pension arrangements started with military pension arrangements in Japan in 1875 shortly after the Meiji Restoration. Then it was expanded to civil servants as high ranking officials or candidates for such officials<sup>10</sup> in 1884. These arrangements were in a sense of nature of extended salary (Ruhegehalt in German) rather than retirement pension. It was called the civil service superannuation system.

For public employees, mutual aid associations were gradually set up since 1905. They were more like the current social security pension schemes than the civil service superannuation system. They provided final salary retirement pensions. After the World War II pension arrangements for civil servants and public employees were unified into the MAA for national government employees in 1958. The civil service superannuation system was abolished at the same time.

After the World War II the Ministry of Railroad, the Ministry of Communications and the Bureau of Monopoly Industry were partially restructured and converted into public enterprises and the MAAs for these enterprises were established in 1956.

Japan attained the industrial revolution around latter part of the 1900's and the extended families disappeared gradually. At the same time poverty in the urban area became a big social problem in the first half of the 20<sup>th</sup> century. Labour disputes frequented. Opinions supporting socialism revolution tended to expand. In this context, after Bismarck's invention, the government started to introduce social security systems. In 1942 it introduced social security pension scheme for

<sup>10</sup> In those days, public servants were classified into two categories like the current German system. Those who were involved in planning or candidates for such jobs were called civil servants and those who were involved in day-to-day operations were called public employees. The pension arrangements mentioned here were for the civil servants.

blue-collar workers of companies with no less than 10 employees. This was the beginning of the current EPI scheme. Later the coverage was expanded and it covers the whole formally employed employees in the private sector.

Shortly before the introduction of the EPI scheme in 1942, Seamen's Insurance was introduced in 1940 to secure seamen. Seamen's work at that time was very dangerous and tough and few people wanted to be seamen. Furthermore it was already wartime and quite often transportation ships were attacked and sunk. In such cases compensation was provided to the survivors of the members of armed forces while nothing for those of seamen. To improve the situation and to employ seamen the government decided to introduce Seamen's Insurance. It was a comprehensive scheme providing health insurance, work injury, unemployment insurance and pension insurance. This introduction also stimulated blue-collar workers to demand for the introduction of income security provisions for old-age, disability and survivorship.

After the World War II, the Japanese economy was going through tough time with super inflation. Under these circumstances the EPI benefits lost adequacy since there was no provision of indexation at that time. The Ministry of Health and Welfare (MHW) proposed to secure adequacy of benefit level of the EPI scheme but the employers strongly opposed it and the MHW could not attain the goal in the first half of the 1950's. Seeing this move, the association of private schools decided to depart from the coverage of the EPI scheme and to establish their own mutual aid association to provide adequate benefits<sup>11</sup>. They lobbied the Diet persons and eventually succeeded in establishing the MAA scheme in 1954. This move stimulated other groups of occupation and the MAA for Agricultural, Fishery and Forestry Cooperative employees were established in 1959. Employees of municipalities also decided not to participate in the EPI scheme but to establish their own MAA in 1954.

Before 1947, shortly after the World War II, when the Local Autonomy Law was enacted based on the new constitution, there was no concept of local government in Japan. Public servants working in localities were all national government employees and some were covered by the civil service superannuation system and others were covered by the mutual aid associations. There were some who were not covered by any of these schemes. After the introduction of the Local Autonomy Law, the concept of local government employees was defined in 1950 and local governments individually introduced pension arrangements for them by by-laws of prefectures or municipalities. They were eventually unified into the MAA for Local Government Employees in 1962. The MAA

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<sup>11</sup> Strictly speaking teachers of private schools were not compulsorily covered by the EPI scheme at that time. Only the clerical staffs were covered.

for municipal employees was also unified into this mutual aid association.

In the latter part of the 1950's coverage-for-all movement in the health insurance motivated the same movement in the social security pensions and the National Pension scheme was introduced for the self-employed and the farmers in 1961.

Thus in the early 1960's there were ten social security pension schemes in Japan. However in the 1970's some of the schemes such as the National Pension scheme, seamen's insurance and the MAA for Japan Railway Company employees started to show unsustainable future financial prospect. At the same time as the awareness of the EPI scheme increased<sup>12</sup>, more and more people claimed that the benefit level of the MAAs was too generous in comparison with the EPI scheme and that these schemes should be equitable. This claim was a form of what is called pension jealousy discussion.

These conditions led to the 1985 reform in which (1) the coverage of the National Pension scheme was extended to the whole nation and schemes for employees were restructured into schemes to provide earnings-related pensions, (2) the benefit formula of the MAAs was changed and made the same as that of the EPI scheme with occupational addition, (3) the pensions part of the Seamen's Insurance was absorbed in the EPI scheme.

Later in the 1990's four MAAs whose financial conditions worsened were absorbed in the EPI scheme<sup>13</sup>. Thus the current social security pension framework as shown in Fig. 2-1 was formed.

### **3. Pension jealousy discussion**

As we have seen above, the civil service pension arrangements, namely the MAAs for national and local government employees, do not greatly differ from the social security pension scheme for private employees, namely the EPI scheme. The main differences were the benefit level of the earnings-related part and the contribution rates. For the basic pension benefits, both are completely put on an equal footing.

The benefit formula for the earnings-related part is also of the same structure. The only

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<sup>12</sup> The EPI scheme recovered its adequacy of the benefit level in the 1965 reform. It increased public awareness of the EPI scheme.

<sup>13</sup> The MAAs for Japan Railway employees, Japan Tobacco employees and Nippon Telegraph and Telecommunications employees were absorbed in the EPI scheme in 1997 and the MAA for Agricultural, Fishery and Forestry Cooperative employees was absorbed in the EPI scheme in 2002.

difference is that there is an occupational addition for the civil service pension arrangements that is equal to 20% of the earnings-related benefits of the EPI scheme. The occupational addition was introduced for the purpose of compensating the loss of profit attributable to the restrictions imposed upon civil servants.

One of the advantages of the occupational addition would be that it is visible to everyone. However, this has been one of the causes of pension jealousy discussion. Pension jealousy discussion, the claim that there are anomalous differences between the civil service pension arrangements and the social security pension schemes for private employees, has existed for a very long time since pre-war days, when transportation ships were attacked and went down into the sea, resulting in the military persons' survivors received pensions while those of the crews in the private sector received nothing. This motivated the introduction of the Seamen's Insurance in 1940. Stimulated by this move, blue-collar workers, especially those of the factories related to the armed forces, demanded for the introduction of pension system, which led to the introduction of the EPI scheme in 1942. Thus the pension jealousy discussion has been one of the driving forces to improve the income security caused by the old-age, survivorship and disability.

Until March 1986, the civil service pension benefits were based on the final salary. However, it was reviewed and made the same formula as the EPI scheme in 1986 in response to the pension jealousy discussion. It was in the same reform that the coverage of the National Pension scheme was extended to the whole nation and restructured as a scheme to provide the basic pension benefits to the whole nation. This reform made it far easier to merge two different schemes for employees. When the financial conditions of the MAA for Japan Railway employees became grave, it was absorbed in the EPI scheme in 1997. Likewise three other MAAs were absorbed in the EPI scheme: the MAAs for Japan Tobacco employees and the Nippon Telegraph and Telecommunications employees were absorbed at the same time as the MAA for Japan Railway employees in 1997 and the MAA for Agricultural, Fishery and Forestry cooperative employees was absorbed in 2002.

These mergers were mostly triggered by the deterioration of the financial conditions of each scheme (MAA). In the case of Japan Railway Company, the number of active participants sharply declined as a result of the fact that after the motor ways throughout the country were constructed and the land transportation means shifted from railway to lorry. The Japan Railway Company came to have many redundancies and sharply reduced the number of employees from 478,000 in 1965 to 196 in 1990, resulting in the sharp decline of the active participants of its MAA scheme. In this sense, the unification process Japan's social security pension schemes have followed

so far may have been caused by the pension jealousy discussion and the financial deterioration.

We will return to the unification process in chapter 6.

#### **4. No existence of the military pension arrangement**

Japanese Constitution declares that the country would not possess armed forces. Therefore Japan has no military pension arrangement. However, we have self-defense forces. They defend the country when it is attacked though they are not allowed to go outside Japan to attack other countries. The members of the self-defense forces are national government employees and they are covered by the MAA for national government employees. There are no special provisions for them and they are equally treated as other national government employees.

#### **5. Sustainability of the civil service pension arrangements**

As we have seen in Chapter 3, the civil service pension arrangements in Japan do not provide very generous benefits to the retired civil servants. It is strictly linked to the benefit level of the EPI scheme for private employees and the indexation is always the same as that for the EPI scheme. Since the 2004 reform, the EPI is subject to modified indexation, whereby the indexation is reduced according to the increase rate of the life expectancy at age 65 and the decrease rate of the active participants in the social security pension schemes as a whole as long as the financial equilibrium is not attained. If the EPI scheme modifies its indexation, the MAAs for national and local government employees apply the same rate of indexation as that of the EPI scheme.

Another driving force of containing the benefit level of the civil service pension arrangements is that the contributions are shared half and half by national and local governments as the employers and the civil servants. If they demand generous benefits, they have to pay contributions of higher rates.

These factors are making the civil service pension arrangements fairly sustainable. If we look at the 2009 actuarial valuations of MAAs for national and local government employees, the ultimate contributions is projected to be 19.8% which can be deemed to be within a sustainable level. This projection is based on the assumption that the portion of the number of active participants in the

MAAs for national and local government employees to the total population aged 15-64 is kept as it is projected for FY 2014<sup>14</sup>. If the number is reduced further than that, the actuarial review is necessary.

The ultimate contribution rate of 19.8% is about 8% higher than that of the EPI scheme. This corresponds to the fact that the civil service pension arrangements provide occupational addition.

## **6. Unification process**

As we have seen in (6) of Chapter 2 and Chapter 3, pension jealousy discussion has been one of the driving forces to expand the coverage of social security pension schemes and to equalize the provisions of the civil service pension arrangements and the social security pension schemes for private employees. Together with the actual emergence of schemes whose financial conditions deteriorated, it made the Cabinet decide that the unifying of the social security pension schemes should be realized. In fact five schemes were absorbed in the EPI scheme in the past.

In 2005 the then Prime Minister ordered the Cabinet to work out a bill to unify all the schemes for employees. In two year's time the government finalized a bill to unify them by extending the coverage of the EPI scheme to all employees<sup>15</sup>. The bill was submitted to the Diet in April 2007. If it had passed the Diet, the social security pension framework in our country would be much simpler. However, shortly afterwards the government parties lost majority in the Upper House. One of the main reasons was the revelation of the existence of so many unidentified records of the EPI and the NP scheme. After that the government parties were reluctant to deliberate pension related bills and eventually the unification bill was nullified.

Faced with this political reality, the unifying of the social security pension schemes for employees may seem to have come to dead end. However, the then opposition party, the Democratic Party of Japan (DPJ) was opposing just because the bill did not include unifying the self-employed people. It supports the unification process in principle. Furthermore now it is a government party. It cannot say unrealistic goals. It is beginning to understand that it is extremely difficult for the government to precisely attach the income to the self-employed people. Without it the employees do

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<sup>14</sup> Until FY 2014 the actuarial valuation assumes that the portion will decline reflecting the current schedule of reduction in the case of national government employees and the decreasing tendency given rise to by merger of municipalities.

<sup>15</sup> The occupational addition was going to be converted into an occupational pension plan.

not accept the unification with the self-employed people. If the understanding of this situation prevails in the DPJ, the unifying of the social security pension schemes for employees would be worth retrieval. Of course it depends on the political situation, but at least it can be said that there are few logical hindrances against the process.

## **7. Retirement lump-sum plan for civil servants**

When we discuss the retirement income of public servants in Japan, we have to take into consideration the retirement lump-sum benefit plans for them in addition to the pension arrangements provided through the MAAs.

Retirement lump-sum benefit plans are very common practice among the Japanese private companies. According to the survey conducted by the Ministry of Health, Labour and Welfare in January 2008, the percentage of the companies which had retirement lump-sum plans out of the companies whose headquarters employed no less than 30 full-time employees was 85.3%.

Reflecting this practice, retirement lump-sum benefit plans for national and local government employees have been in place since 1953. Retirement income provisions for national and local government employees are the pension arrangements through MAAs and the retirement lump-sum benefit provisions. There is nothing else but personal savings and insurance contracts.

As to the benefit level of the retirement lump-sum benefit plan for national government employees, the National Personnel Authority conducted a sampling survey of the companies with no less than 50 employees. It showed that the retired full-time employees with no less than 20 years of service received JPY 29.8 million in average while the retired national government employees with no less than 20 years of service received JPY 29.6 million. Here in the case of private companies the corporate pensions are converted into their present value and in the case of national government employees the occupational addition provided by the MAA for national government employees is converted into its present value and added to the lump-sum. It should be noted that the portion corresponding to the contributions by employees<sup>16</sup>.

From this we can say that the benefit level of the retirement income provisions has little

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<sup>16</sup> In the case of retirement lump-sum benefit plans, there are no contribution payments from the employees in both public and private sectors. In the case of corporate pensions in the private sector, there are very few cases in which employees pay contributions. For the occupational addition of the MAA for national government employees, a half of its cost is born by the employees.

difference between the national government employees and the private employees.

However, while many of the private enterprises have converted a portion of their retirement lump-sum benefit plans into corporate pensions, national and local government employees receive 100 % of their retirement lump-sum benefits in the form of lump-sum. It is only the occupational addition of the MAA schemes that they receive in the form of annuity as the retirement income exceeding the EPI benefit level.

The expenditures of the retirement lump-sum benefits for national and local government employees are financed by the general revenue. According to the survey by the Ministry of Internal Affairs and Communications, in FY 2008 the central government paid the retirement lump-sum benefits to 40,589 retirees and the average amount of benefit was JPY 10, 861,000. This implies that the total amount paid was JPY 441 billion. There is no statistics available for the case of the local government employees but taking account of the size of the local government employees being 3 times as many as the central government employees, we can easily see its huge size. There are no financial projections of the future expenditures for the plans but we can say that, although it is not catastrophic due to the nature of lump-sum plans, the burden heavily persists in the general budget for the central and local governments.

## **8. Future prospect of the civil service pension arrangements in Japan**

As we conclude, we have to envisage the future unification process, the lump-sum benefit plans and the pension jealousy discussion.

First, we can say that the unifying of the social security pension schemes is the strong persistent request of the general public and as was about to be accomplished in 2007, the civil service pension arrangements will eventually be merged with the EPI scheme in the future however much time it may take. This may be consistent with the purpose of social security arrangement that it is to prevent those who have encountered risks in economic life such as old-age, disability and survivorship from being impoverished by providing them with benefits. This should be done by the whole society.

Second, too much reliance on lump-sum benefits as it is may not be good for the public servants. It can drive public servants to be more concerned with saving for retirement, which is from time to time apt to make them lose fairness which is crucial to civil service. Fairly large portion of

lump-sum benefits should be converted into life annuity and public servants should get rid of concerns with saving for retirement. The prerequisite for this conversion is that the public servants should be ready for modest plain life.

Third, the pension jealousy discussion has so far been working successfully in expanding the coverage of social security pension schemes and equalizing the benefit provisions of the civil service pension arrangements and the EPI scheme. However, recent tendency is that the politicians denounce bureaucrats excessively in order to increase votes. Mass media also helps them and urge them. There were certainly scandals of bureaucrats recently and the blame should partly be theirs. However it gets us nowhere and weakens the national capabilities. Pension jealousy discussion sometimes stems from such unreasonable origins. If politicians continue to do so and the public support it, the public servants would lose competency and fairness. No able person with fairness would become public servant. Likewise, when we discuss matters related to the pension jealousy discussion, we always have to bear in mind that the nature of civil service sometimes requires special restrictions. They are not allowed to commit strikes. They are not allowed to trade equities if they are in a position to be able to know the insider information or in a higher position. The pension jealousy discussion is quite often related to matters outside pension arrangements. We have to discuss it from the comprehensive perspective.

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