

# Reforming Pension Implementation in Japan

by

Noriyuki Takayama  
Professor of Economics, Hitotsubashi University

[takayama@ier.hit-u.ac.jp](mailto:takayama@ier.hit-u.ac.jp)

<http://www.ier.hit-u.ac.jp/~takayama/English/index.html>

# Contents

- **Introduction**
- **50 Million Floating Pension Records**
  - (1) **What Happened**
  - (2) **What Was Wrong**
  - (3) **What the Government Is Now Doing**
- **Fraudulent Activities by Employers**
- **Some Proposals for Better Implementations**

# Introduction

- 3 major issues on SS pensions
  - design/coverage/implementation
- weak implementation
  - growing distrust against government commitment
  - increasing drop-out
- How to save administrative and compliance costs?
- Greater importance has to be placed on implementation issues.

# Conventional Ideas of Pension Experts in the World

**“ Making pension institutions operate effectively is an enormous challenge. Many things can and do go wrong. --- In Western Europe, the United States and Japan, pension institutions, both public and private, work reasonably effectively.” (Stanford G. Ross, 2004)**

**“ Employers’ compliance with contribution regulations --- is considered to be high in Japan.” (Warren McGillivray, 2001)**

**“ Social security administrators are sometimes reluctant to admit they face compliance problems.” (W. McGillivray, 2001)**

# 50 Million Floating Pension Records (1)

● In May 2007, it came to light in JPN that there are 50 million floating pension records, shattering the public trust for SS pensions. It still remains one of top priority issues in the political arena of JPN.

← several SS pension programs among different sectors of the populations

← no adding-up requirement of covered years among different programs until 1961

← no unified pension ID numbers introduced until January 1997

← Pension numbers were usually changed when the person moved, changed his/her job and name.

# 50 Million Floating Pension Records (2)

- 13 years ago, we had 300 million pension numbers registered in the database, while approx. 100 million people were newly given their unified pension ID numbers at that time.
- The matching (identifying) process of each existing number to the unified one was very slow. Even 2006, 10 years later, 50 million records remained floating.

# Pending Pension Records

**28.8 million (57%)**

**Age 60+**

**22.15 million (43%)**

**Under Age 60**

**39.7 million  
(78%)  
KNH**

**11.3 million  
(22%)  
KN**

**As at June 2006**

# Record Keeping of JPN Occupational Pensions

● unpaid pension benefits in the KNK in 2006

early retirees: 1.47 million persons

(around one thirds)

mandatory retirees at age 60: 146,000 persons

(5.6%)

← mainly due to the unknown current addresses

# Implementation Issues in Other Countries

- US: 8 million no-matches and 5 million no reach of the SS statement every year  
**246 million records in ESF in 2004**
- UK: new flow of 1.9 million no-matched NINO in 2007  
**116 million NINO in non-matched SF**
- Australia: 6.1 million lost members in superannuation accounts

# What Was Wrong in JPN

- **human errors by insured persons, their employers and agencies, along with cheating activities by employers**
- **systemic errors in record keeping based on one-sided application and notification by the insured; Social Insurance Agency (SIA) is NOT allowed to integrate numbers without proper notification by the insured persons**
- **no integrated collection of taxes and SS contributions**
- **no monitoring organizations, effectively implemented**

# Too Much Reliance on Bureaucracy

- Government officials in JPN used to be regarded as the best and brightest. Observed was too much reliance on bureaucracy in the past. The general public were under the illusion that Government officials were able to do and did everything correctly without committing any errors.
- No feedback system for error correction has been implemented in JPN.

# Unique Difficulties in Pronouncing Names (Chinese Characters)

- There are variations in the correct pronunciation of JPN names of the same Chinese Characters.
- But, when we moved to digitized records from the old, hand-written paper form in 1960s, no asking of correct pronunciation was made.
- Card punchers were then forced to mechanically assign one pronunciation of each Chinese character, correct or wrong. Their mistakes remained long uncorrected.

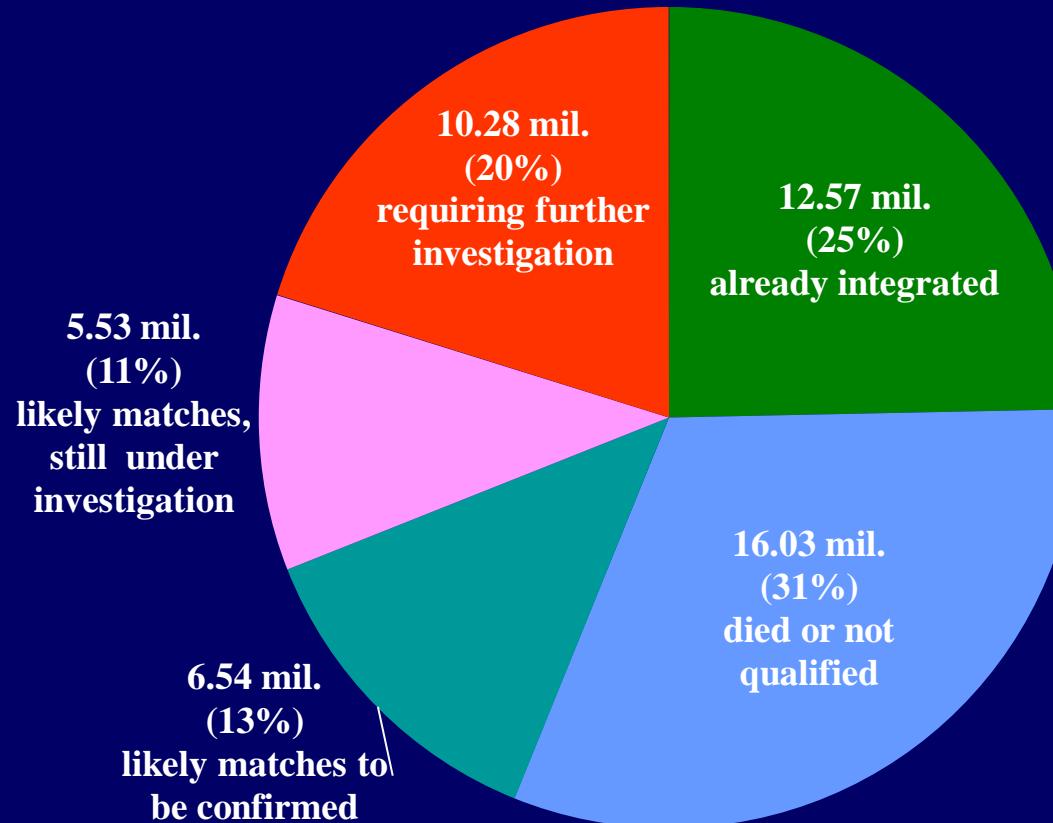
# What Was Wrong: Summary

- The knowledge of program participants about the pension system details was insufficient.
- Their employers did not always pay enough attention to providing correct info to the SIA.
- The SIA behaved passively, waiting until the participants claimed their entitlements.

# Progress Report / March 2009

- vigorous investigations of floating records carried out from June 2007
- the progress report as at the 25<sup>th</sup> September 2009
  - see the next slide
- SS pension statement sent annually from April 2009

# Current Situation of the 50 Million Floating Pension Records, as at the 25<sup>th</sup> September 2009



# Record Changes by False Reports from Employers (1)

- In September 2008, Government announced that around 69,000 records of salaries were suspected of frauds by employers.
- The KNH coverage has been expanded since 1988 to include small business establishments of one employee or more.
- In the early 1990s (the period of the bubble burst), delinquency in paying KNH contributions increased sharply in number.

# Record Changes by False Reports from Employers (2)

- In order to avoid bankruptcy, some employers sent false reports to the SIA to change the amount of past salaries into a less amount. The SIA accepted them without any backup documents or with making few field checks.
- There was a very limited number of the SIA staff in charge of collecting SS contributions and handling delinquency.
- The SIA was forced to fictitiously assume that employers would be honest in reporting their employees' details.

# Record Changes by False Reports from Employers (3)

- All documents related to the KNH application and contribution payments, and the SIA conformation letters of them were exchanged only between employers and the SIA. No direct access from the SIA to KNH employees had taken place before December 2007.
- The employees had few opportunities to check their past earnings records in the SIA database until they reached their pensionable age to apply for their old-age benefits.

# Some Proposals for Better Implementation:

## (1) Periodical Feedback for Correcting Errors

- Human errors are inevitable.
  - Any errors have to be checked promptly by a periodical and interactive feedback system. Upon any no-match identified, notification with responding correction and confirmation should follow in due course.
- Pension enrollees and their employers in JPN have to be more active in the error correction process. Without their cooperation, the process cannot be completed.

# Some Proposals for Better Implementation:

## (2) Moving Towards e-government

- Keeping the valid corresponding addresses of the program participants is quite important, with sharing them among all government agencies.
- Extensive use of e-mails and internet is more cost-effective
  - Errors can be quickly corrected.
- Registration of all relevant info through the internet by each company and each individual will enable data consolidation, inducing less frauds.

# Some Proposals for Better Implementation:

## (3) Integrated Collection of Tax and SS Contributions

- In JPN, the tax agency has much more expertise in collecting them.
- world-wide trend: integrated collection
  - save administrative costs
  - less compliance costs
  - less frauds
- Integration is promising in JPN, as well.

# Some Proposals for Better Implementation:

## (4) Giving Much More Importance to Implementation

- **wrongful disregard for operational practice of pensions in JPN, and severe and persistent bashing against the SIA**
  - the pride lost and lower motivations
  - tired from overtime work
  - quitting their jobs
- **Greater importance has to be urgently placed on implementation for JPN to revive the reliable and trustful government.**

## References

- GAO, US (2005), “Social Security: Better Coordination among Federal Agencies Could Reduce Unidentified Earnings Reports.” GAO-05-154.
- McGillivray, W. (2001), “Contribution Evasion,” *ISSR*, 54(4).
- NAO, UK (2009), *National Insurance Fund Account 2007-08*.
- Ross, S. G. (2004), “Collection of Social Contributions,” a paper presented at the ISSA Conference at Cracow.