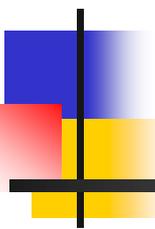


# Civil Service Pension Arrangements in Japan

*International Workshop on Civil Service and Military Pension  
Arrangements in Selected Countries of the Asia and the Pacific*



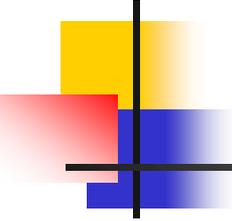
*organized by PIE, Hitotsubashi University*

*Supported by RIPPA*

*Hitotsubashi Collaboration Center, Tokyo, Japan on 20-21  
January 2011*

Junichi Sakamoto

Nomura Research Institute



# Retirement Benefits for Public Servants in Japan

---

## ■ Annuity

- old-age basic pensions from the National Pension scheme

- \* flat-rate benefits

- \* the same as the private employees

- earnings-related pensions from the Mutual Aid Associations for central or local government employees

- \* career average benefits

- \* 20% larger than the private employees

## ■ Retirement lump-sum benefit

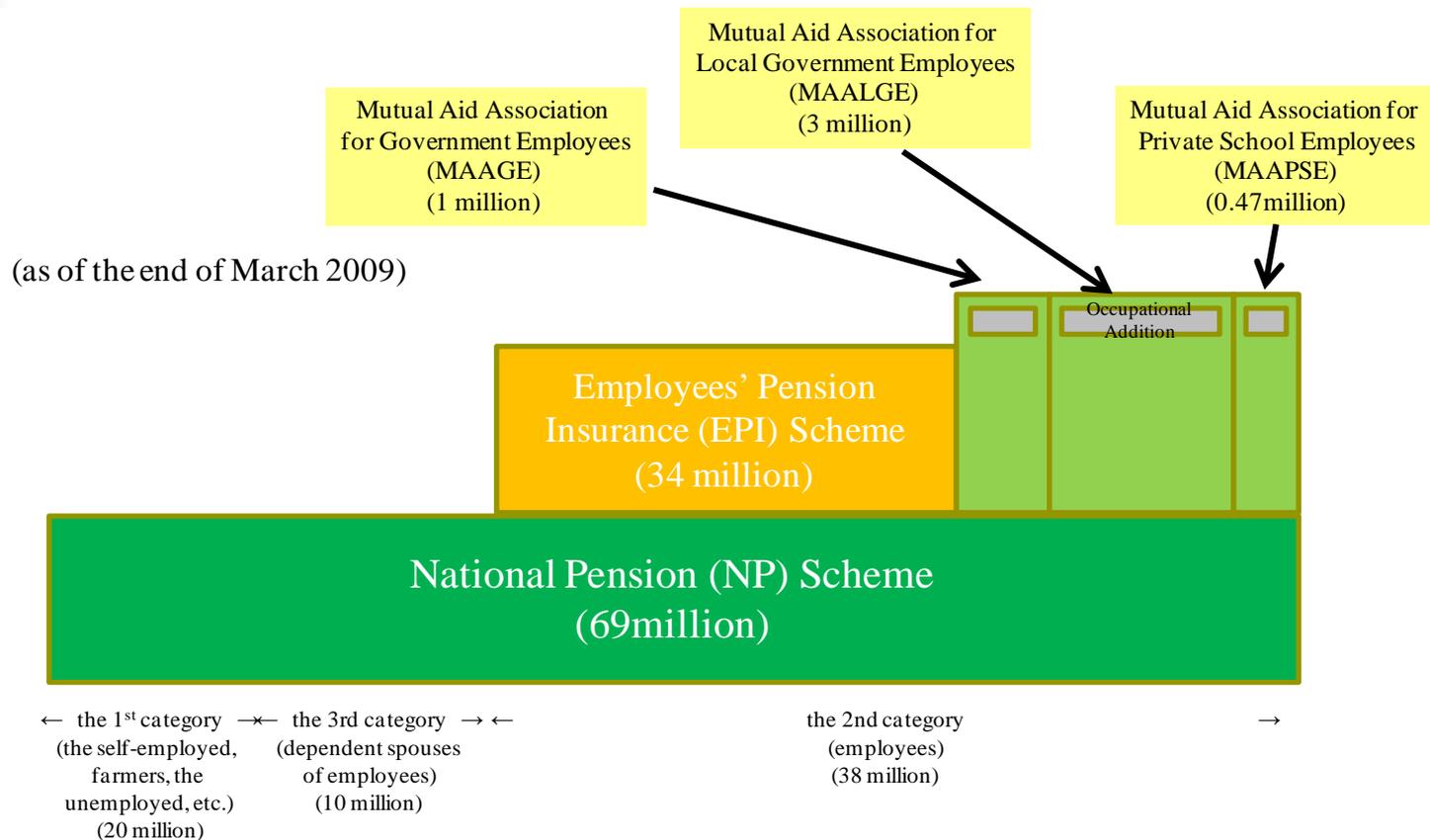


# Features of Retirement Benefits for Public Servants in Japan

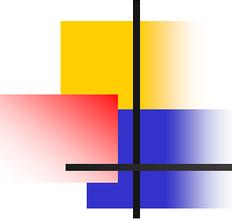
---

- Relatively small differences between the civil service pension arrangements and the social security pension schemes for private employees
- No military pension
- Civil service pension arrangements are sustainable at the moment
- Efforts have been made to unify all the pension schemes for employees
- Small differences of supplementary retirement benefit plans between the public and private sectors

# Social Security Pension Framework in Japan



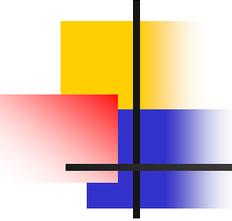
(Source) Author's drawing. The data are from Actuarial Subcommittee of the Social Security Council of the Ministry of Health, Labour and Welfare.



# Basic Pension Benefits

---

- Flat-rate benefit: JPY 792,100 (FY 2010)
  - 40 years of contributions



# Earnings-related Benefits

---

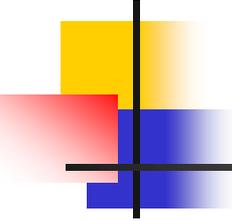
- The EPI scheme: career average benefit

$$(\text{revalued average pensionable remuneration}) \times \frac{5.481}{1000} \times (\text{number of months covered by the EPI scheme})$$

- The MAA schemes: career average benefit

$$(\text{revalued average pensionable remuneration}) \times \frac{5.481}{1000} \times (\text{number of months covered by the EPI scheme}) + (\text{occupational addition})$$

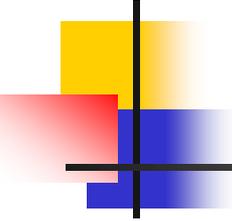
- occupational addition = 20% of the 1<sup>st</sup> term



# Indexation

---

- The same index for both EPI benefits and MAA benefits
- Principal indexation:
  - up to the age of 65: based on the increase of disposable income
  - after the age of 65: based on the CPI increase
- Modified indexation
  - applicable to the NP and EPI schemes
  - modified when the financial equilibrium is not attained
  - modifier = (decrease rate of the active participants in the social security pension schemes) + (increase rate of life expectancy at age 65)
  - modified indexation = (principal indexation) - (modifier)
  - indexation for civil service pension arrangements is by the same rate as the EPI scheme after modification



# Occupational Addition

---

## ■ Rationale

- to compensate for the economic loss due to the constraints imposed upon central and local government employees

- \*not allowed to trade equities if in a position where one can obtain insider information

- \*high ranking officials are not allowed to trade equities

## ■ One of the main causes of pension jealousy discussion

- nowadays such constraints are also imposed on some private employees

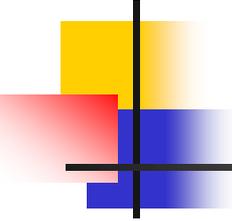
- \*they may be compensated for by their salary though

## ■ Size

- JPY 18,000 while private employees receive JPY 224,000 with 40 years of coverage and the career average salary equal to average of the current male employees (JPY 429,000 in FY 2008)

- \*JPY 224,000 = JPY 92,000 (old-age EPI benefit) + JPY 66,000 X 2 (old-age basic pensions for the wife and the husband)

- \*a government employee's household receive JPY 242,000 with the same years of coverage and the same career average salary



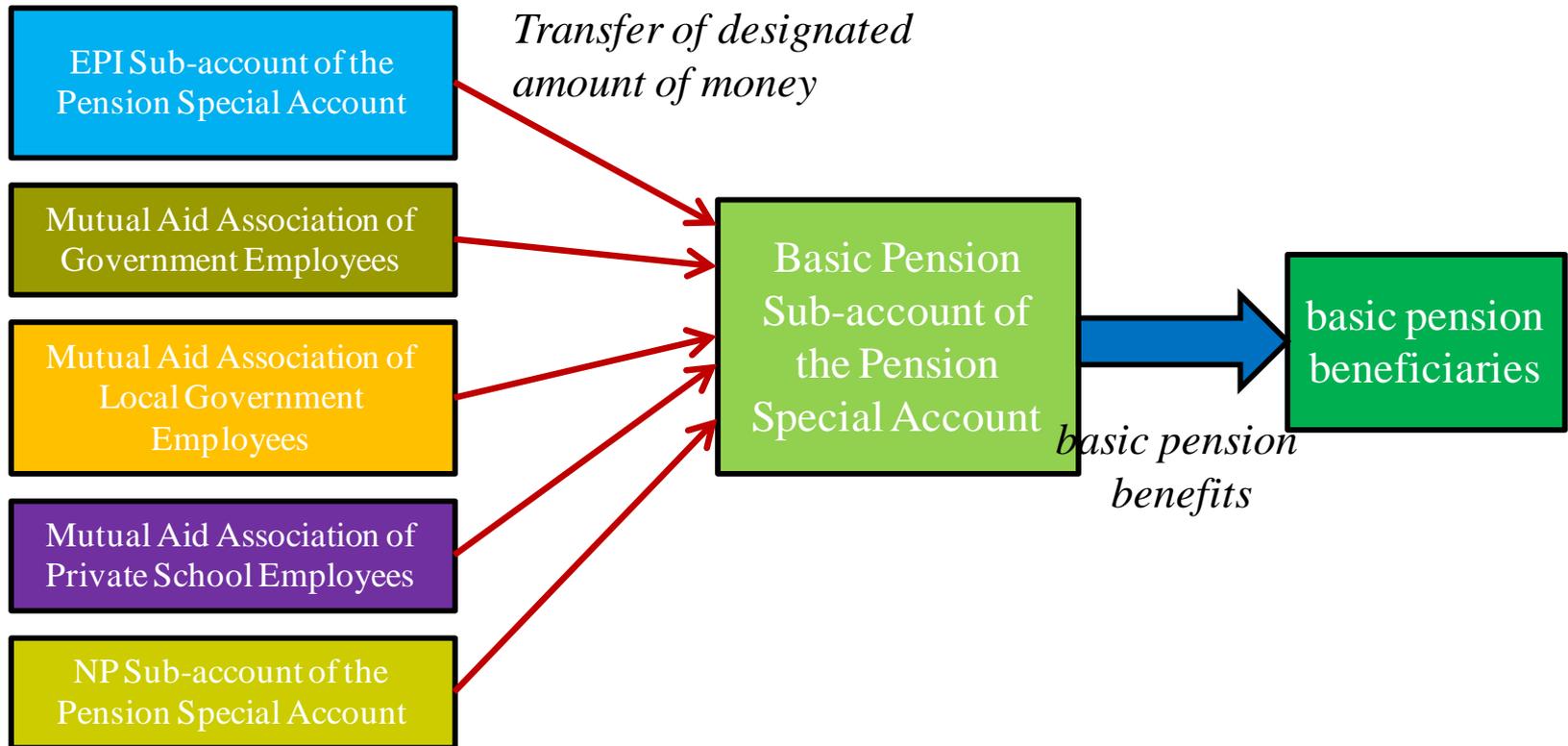
# Contributions

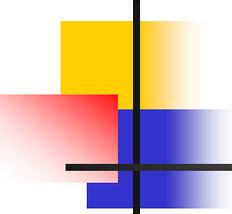
---

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

(Source) Actuarial subcommittee of the Social Security Council of the Ministry of Health, Labour and Welfare

# Financing the Basic Pension Expenditure





# Amount of Money Actually Transferred

(FY 2008; in billion JPY)

Schemes	Designated amount of money
Total	19,255.9
EPI scheme	13,316.2
MAA for Government Employees	449.3
MAA for Local Government Employees	1,199.5
MAA for Private School Employees	169.1
NP Sub-account	4,121.8

(Source) Actuarial Subcommittee of the Social Security Council

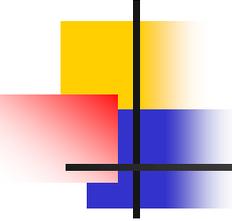
# Basic Statistics of the Schemes for Employees

scheme	number of active participants (1) (in ten thousand)	number of old-age beneficiaries (2) (in ten thousand)	(1)/(2)	average monthly amount of old-age benefits (JPY in thousand)	size of reserve fund (JPY in trillion)	Fund ratio
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.

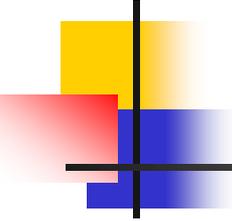
(Source) Actuarial Sub-committee of the Social Security Council of the Ministry of Health, Labour and Welfare



# Pension Jealousy Discussion

---

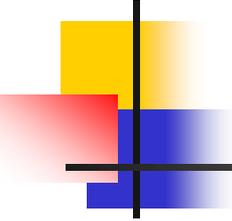
- Main differences
  - occupational addition
  - contribution rates
  - survivorship can be taken over by grandchildren or grandparents
- Pension jealousy discussion has been one of the driving forces to improve the social security pension schemes for private sector
  - introduction of Seamen's Insurance (1940), the EPI scheme (1942), the NP scheme (1961)
- Equalizing efforts
  - the pensionable age (1979)
  - the benefit formula (1985)
  - extension of coverage of the NP scheme to the whole nation (1985)



# No Military Pension

---

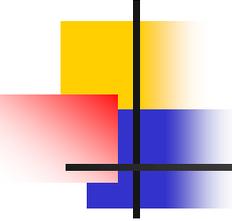
- No military pension arrangements in Japan due to the Constitution
- Members of the Self-defense Forces are treated in the same way as the central government employees
  - covered by the MAA for central government employees
  - no special provisions for them



# Sustainability of Civil Service Pension Arrangements

---

- 2009 actuarial valuation
  - the ultimate contribution rates: 19.8%
    - \* economic assumptions: the same as those for the EPI scheme
    - \* future number of public servants: the same portion to the total population aged 15-64 is kept as it is projected for FY 2014 (up to this year it is to decrease)
    - \* the ultimate contribution rate of the EPI scheme is 18.3%
- Factors containing the expenditure
  - strict and visible linking to the EPI benefits
  - contributions are shared half and half by the governments and the public servants



## Unification Process (1)

# Until the End of World War II

---

- Period of establishing separate schemes
- 1875 superannuation for the navy
  - followed by the army (1876), the civil servants (1884)
  - unified into a single superannuation system (1923)
  - only for civil servants, not for public employees
  - final salary system (a form of salary rather than pensions)
- 1905 MAA for public employees of Yawata Iron Manufacturing Public Corporation
  - followed by several other government departments
- 1940 Seamen's Insurance
- 1942 the EPI scheme

## Unification Process (2)

# Before the 1985 Reform

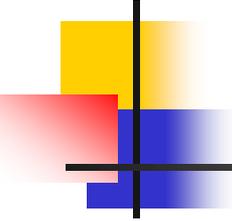
- The EPI scheme could not attain adequacy until 1965
  - separation movement by private schools and agricultural cooperatives
  - establishing the MAA for private school employees (1954) and the MAA for agricultural, fishery and forestry cooperative employees (1959)
- 1956 MAA's for public enterprise employees
  - some government departments were converted into public enterprises
  - JR, JT, NTT
- 1958 MAA was extended to the whole government employees
  - superannuation system was abolished
  - distinction between civil servants and government employees was abolished
- 1962 MAA for local government employees
  - before 1947 no local government
- 1961 the NP scheme for the self-employed, farmers, the unemployed, etc.
- Some schemes started to have bad financial prospect in the 1970's
  - Seamen's Insurance
  - the NP scheme
  - MAA for Japan Railway employees
- Pension jealousy discussion heightened in the last half of the 1970's
  - reflecting the improved benefit level of the EPI scheme, resulting in more interest in the scheme
  - equalized the pensionable age in 1979

## Unification Process (3)

# The 1985 Reform

---

- Coverage of the NP scheme was extended to the whole nation
  - the flat-rate part of social security pension schemes was unified
  - change in industrial structure does not affect the financial conditions of the NP scheme
- Seamen's Insurance was merged with the EPI scheme
- Benefit formula of MAA's
  - final salary → career average
  - (MAA's earnings-related formula)
    - = (EPI earnings-related formula) + (occupational addition)
  - occupational addition = 0.2 X (EPI earnings-related formula)

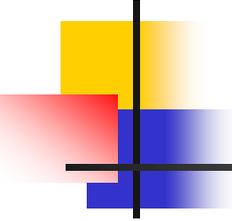


## Unification Process (4)

### Absorption of Some MAA's

---

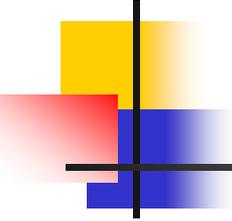
- 1997: MAA's for JR, JT, NTT employees were absorbed in the EPI scheme
- 2002: MAA for agricultural, fishery and forestry cooperative employees was absorbed in the EPI scheme



## Unification Process (5) the 2007 Bill

---

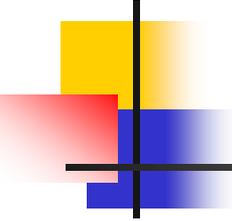
- When the 2004 reform bill was deliberated in the Diet, the then opposition party, the Democratic Party of Japan proposed to unify all social security pension schemes including the self-employed people
- Countering this move, the then government parties proposed to unify all schemes for employees and submit the bill in April 2007
- The bill was to extend the coverage of the EPI scheme to the whole employees
- The bill was nullified on the dissolution of the Lower House in 2009
  - the then government parties lost majority in the Upper House in 2007
  - it was not deliberated in the Diet



# Retirement Lump-sum Plan for Public Servants

---

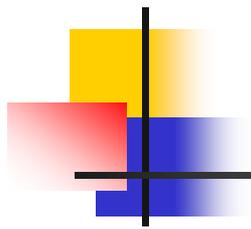
- Common practice among private companies in Japan
  - 85.3% of companies whose headquarters employ no less than 30 full-time employees have retirement lump-sum plans in 2008  
(survey on employment conditions by the Ministry of Health, Labour and Welfare)
- The plan was introduced in 1953
  - no occupational pension plan for public servants while many of the private companies have converted the part or whole of retirement lump-sum plan into corporate pension plans
- Survey by the National Personnel Authority in 2006
  - retirees with no less than 20 years of service
  - average amount of private employees: JPY 29.8 million
    - \* retirees of companies with no less than 50 employees
    - \* corporate pensions are converted into their present value and added to the amount
    - \* excluded the portion corresponding to the contributions of employees, which is very rare in private companies
  - average amount of central government employees: JPY 29.6
    - \* including the present value of the occupational addition provided by the MAA scheme for central government employees
    - \* excluding the portion corresponding to the contributions of employees
- Financed by the general revenue
  - total amount of the central government: JPY 441 billion in FY 2008



# Future Prospect

---

- Unification of schemes for employees
  - persistent request of the general public
  - compensation for constraints imposed on public servants should be provided through occupational benefit plan
  - unification including the covered people in the 1<sup>st</sup> category will be difficult as long as employees feel that the income attachment of the self-employed is not equitable with that of the employees
- Too much reliance on lump-sum benefits as occupational benefit plan is problematic
  - annuity is important
  - public servants should get rid of the concerns of saving for retirement
- Pension jealousy discussion
  - should be comprehensive as it relates not only to retirement benefits but to what kind of worker's rights public servants are endowed and what kind of constraints they are imposed on
  - some politicians make excessive use of it, which may weaken the national capability



Thank you very much for your attention!