

Implementation and Coverage Issues on Public Pensions in Japan

by

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Organization

2005 JAPAN at a Glance

Implementation Issues

Brief Outline of Pension Provisions in JPN

Current Role of SS Pensions

Coverage Issues

Concluding Remarks

The 2005 Japan at a Glance

Population	127.8 million
Population 65 +	25.7 million (20.1%)
TFR	1.26
GDP	JPY 504 trillion (USD 4.6 trillion)
GDP per capita	USD 36,000
SS Benefits	JPY 87.9 trillion (17.4% of GDP)
SS Pension Benefits	JPY 46.3 trillion (9.2% of GDP)
No. of SS Pension Enrollees	70.45 million (55%)
No. of SS Pension Beneficiaries	32.87 million (26%)
The Normal Pensionable Age	65

Current Implementation Issues in JPN

Conventional Ideas of Pension Experts in the World

Realities Made Public in 2007

50 Million Records, Floating

Causes of Unintegration

Some Discussions

Conventional Ideas of Pension Experts in the World

“ Making pension institutions operate effectively is an enormous challenge. Many things can and do go wrong. --- Pension institutions work with reasonable reliability. --- 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 Pending Pension Records (1)

Last May, it came to light in JPN that there are 50 million pending 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 unified pension numbers introduced until January 1997

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

50 Million Pending Pension Records (2)

11 years ago, we had 300 million pension numbers registered in the database, while approx. 100 million people were newly given their unified pension numbers at that time.

The matching (identifying) process of each existing number to the unified one was very slow. Even today, 11 years later, 50 million records remain unintegrated.

Incidentally, 50 mil. records tend to be misunderstood as 50 mil. people. However, many cases are of those holding two or more pension pocket-books. Eliminating the deceased and the unqualified, it is most probable that actual number of floating records is no more than 10 mil. people.

Unintegrated Pension Records

28.8 million (57%)

Age 60+

22.15 million (43%)

Under Age 60

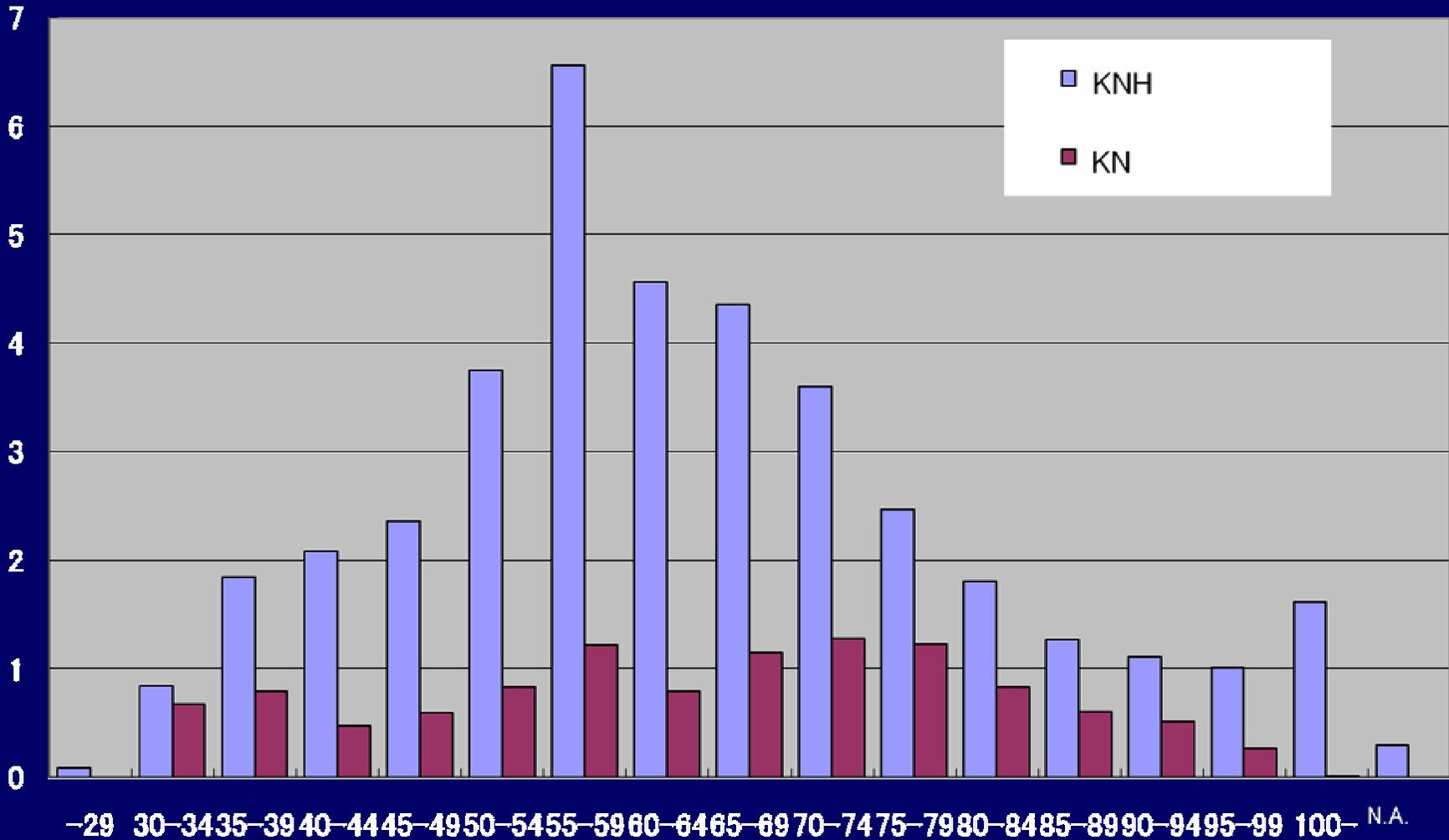
**39.7 million
(78%)
KNH**

**11.3 million
(22%)
KN**

As at June 2006

Unintegrated Pension Records

million



Age

Main Causes of Unintegration

human errors by enrollees, their employers and agencies

systemic errors in record keeping based on one-sided application and notification by enrollees; Social Insurance Agency is **NOT allowed to identify (integrate) numbers **without** proper notification by enrollees**

no monitoring organizations, effectively implemented

Unrealistic Assumptions in Pension Record Keeping in JPN

Do enrollees and their employers always declare accurately and honestly?

Will enrollees **NOT lose any of his/her pension pocket books or pay-slip?**

Did everyone reply to the inquiry postcards sent 11 years ago by the SIA?

Does the agency make no mistakes?

Some Discussions (1)

Gov't 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 believed that Gov't officials would be able to do and virtually would have done everything correctly without committing any errors for the public.

50 million floating pension records were considered as a betrayal, inducing blazing anger against the bureaucrat last year.

Many Japanese now feel that the Gov't is not reliable any more. As distrust against Gov't commitment builds up, concern about such a “problem of lack of trust” is also growing.

Some Discussions (2)

Compliance would surely be lowered, and the actual level of SS pension coverage in JPN would shrink consequently in recent years.

The trustworthy government with its competent and neat implementation is, thus, the basis for good coverage of SS pensions.

Human errors are inevitable. Regular and prompt examinations over possible errors are required for proper record keeping of pensions. Upon any no-match identified, a two-way notification and confirmation with correction should follow in due course.

Record Keeping of Occupational Pensions

unpaid pension benefits in the KNK in 2006

early retirees: 1.24 million persons

**mandatory retirees at age 60: 137,000 persons
(5.6%)**

mainly due to the unknown current addresses

Brief Outline of Pension Provisions in JPN

Background

Current Provisions

Two-tier Benefits (DB)

Contributions

Transfer from GR

Current Role of SS Pension Benefits

Share in Retirement Income

Poverty Incidence

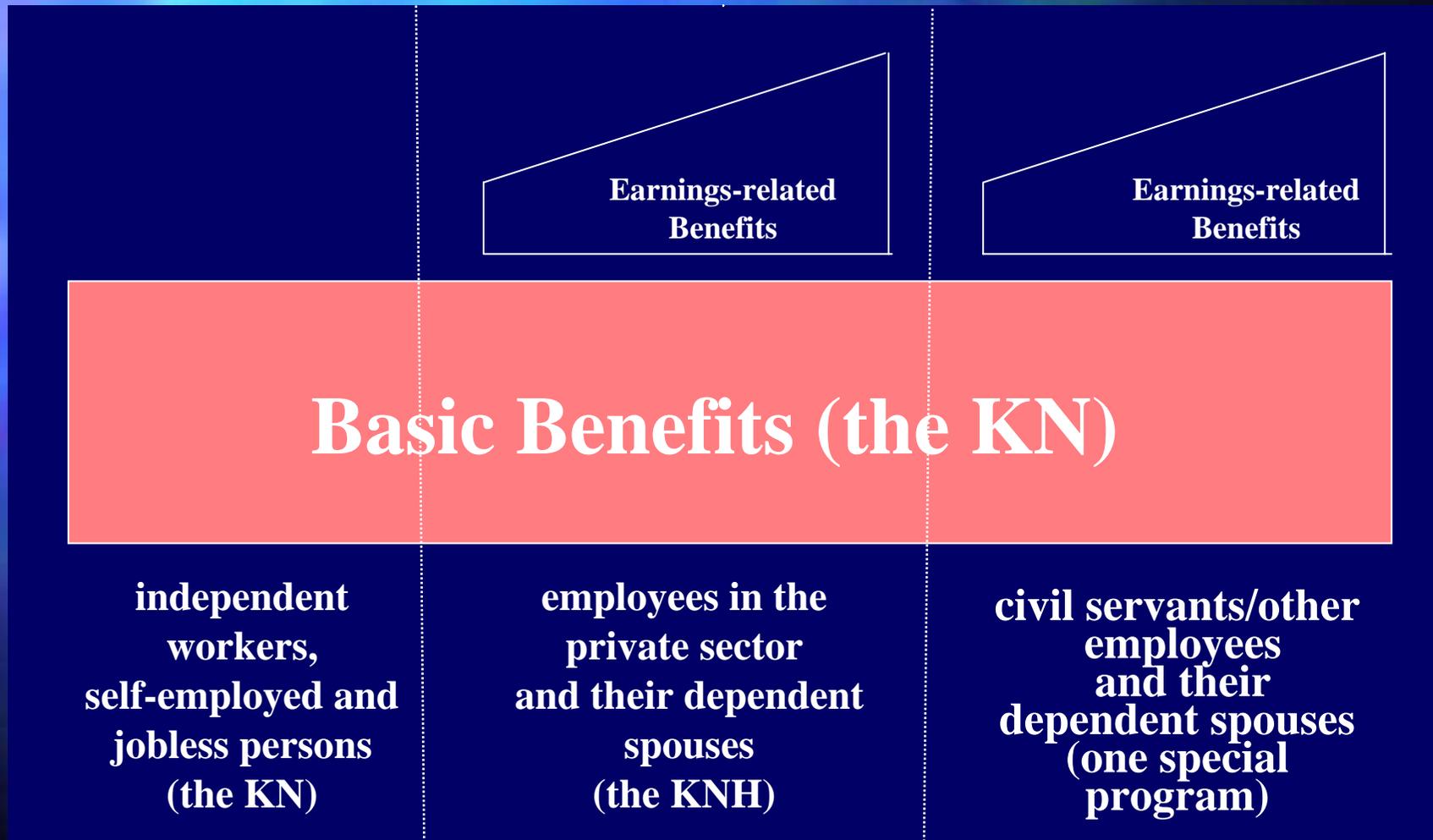
Background

The earliest plan was established in 1890. It was for military servants. The scheme was then expanded to civil servants. The principal program is the Kosei-Nenkin-Hoken (KNH), which was enacted in 1942. It was rebuilt in 1954 shifting from an earnings-related pension to a two-tier benefit system with flat-rate basic benefits.

The latest one (the Kokumin-Nenkin, KN) was introduced in 1961 for all the remaining others. It has the flat-rate basic pensions, only.

JPN has several SS pension systems, covering different sectors of the population.

Two-tier Benefit System of SS Pensions



Notes: KNH = Kosei-Nenkin-Hoken, KN = Kokumin-Nenkin

Two-tier Benefits (DB)

Basic Flat-rate Benefits (PM, PP)

66,000 yen = USD 600

Earnings-related Benefits (40Yrs)

28.5% of Career Average Monthly Real Earnings

Replacement Rate (One-earner **Couple**)

currently around 60% net (233,000 yen = USD 2,100) at age 65 50% net in 15 yrs

CPI Indexation: Provisionally Suspended

New Formula, taking demographic factors into account

Contributions/Transfer from GR

Contributions

14.996% of **Annual Wages**

14,100 yen (PM, PP) for Non-employees

Subsidy from General Revenue

1/3 of Flat-rate Basic Benefits

1/2 of Flat-rate Basic Benefits from 2009

Mainly PAYG, but with Partial Prefunding

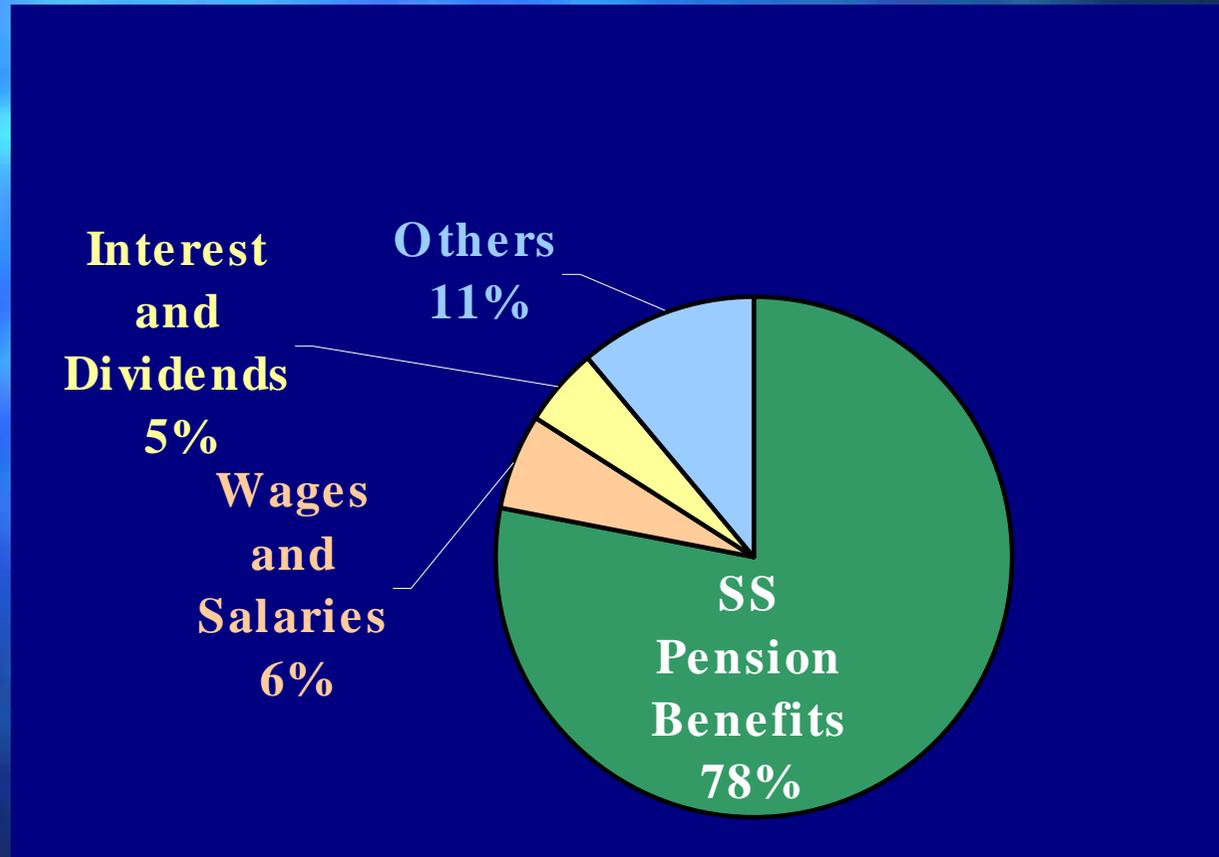
Current Role of SS Pension Benefits

Share of SS Pension Benefits in Retirement Income

Per-capita Income by Age

Current Poverty Incidence

SS pension benefits are the major source of retirement income



median income: 3.38 million yen

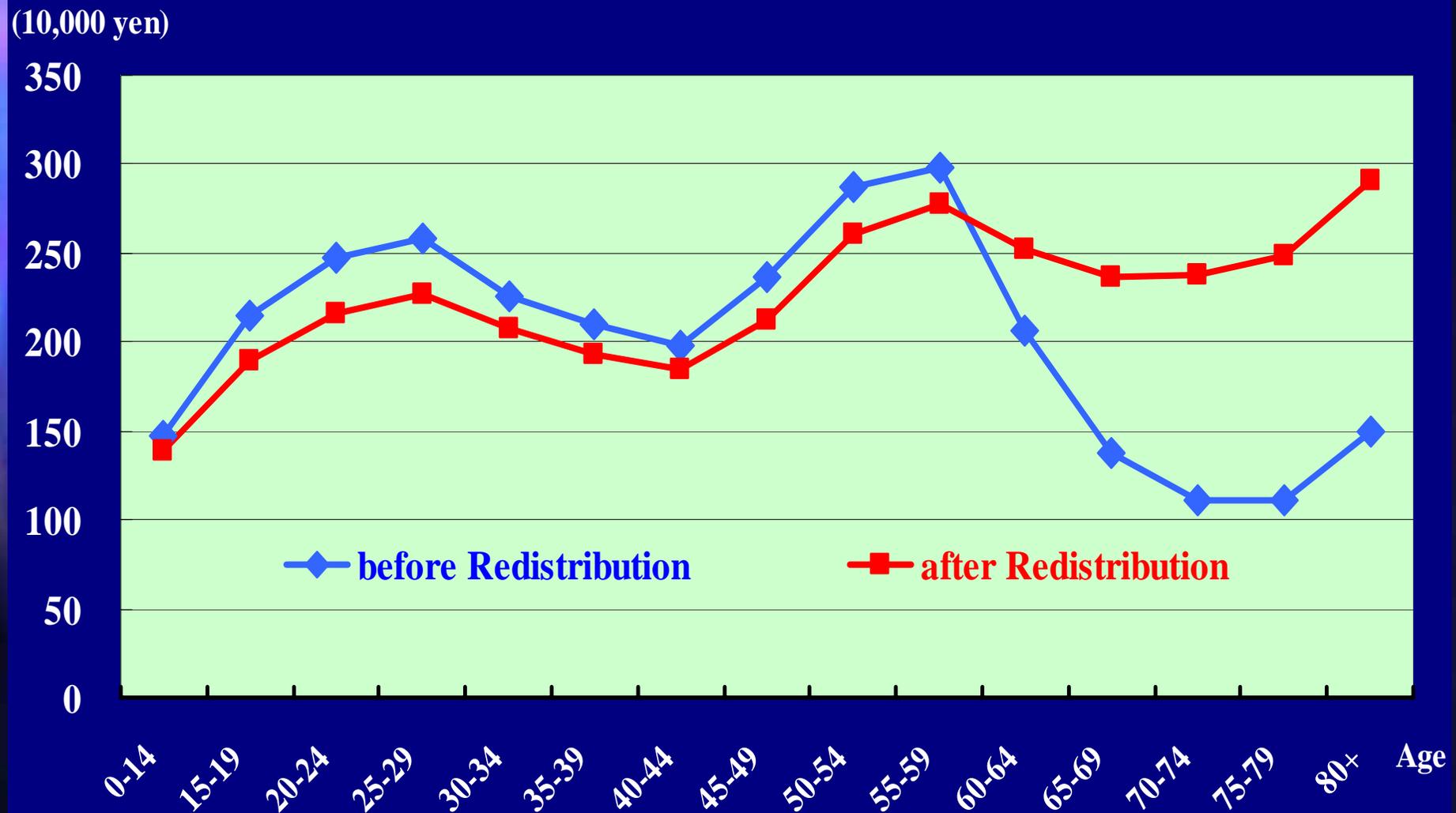
Source: *The 1989 NSFIE* (elderly couples: median income group)

Too Much Transfers from Younger Generations

It is amazing that currently in Japan, the elderly are better off than those aged 30 to 44 in terms of per capita income after redistribution.

Current pension benefits are still too generous and there is room for reduction in pension benefits.

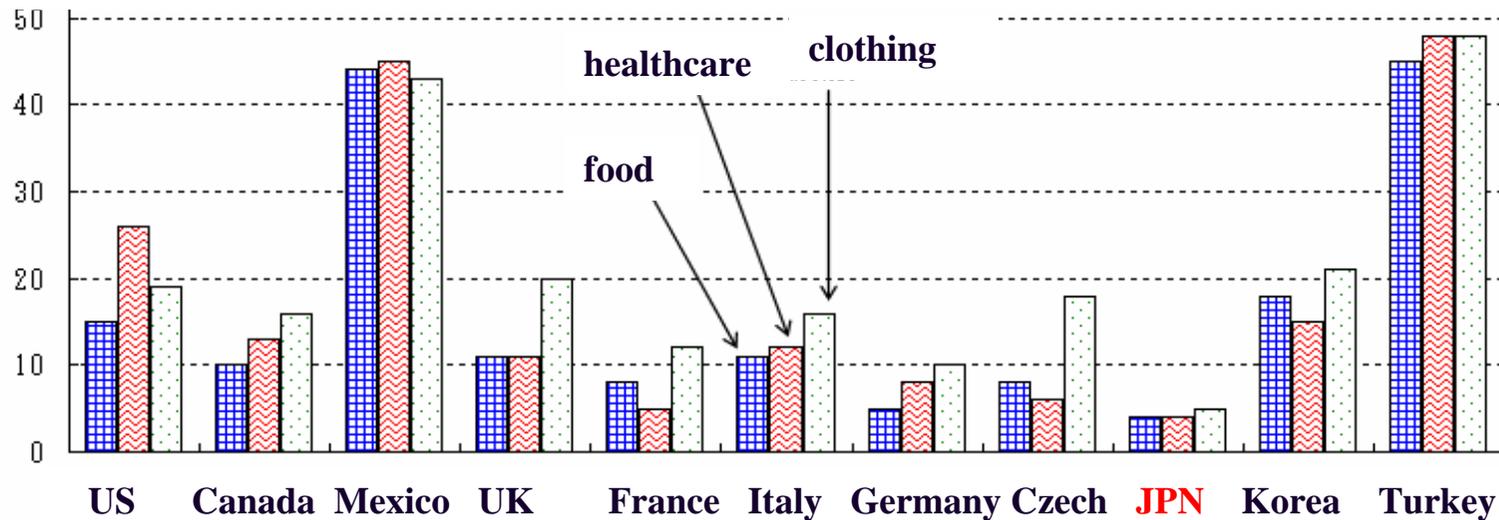
Per-capita Income by Age in Japan



Source: Ministry of Health and Welfare, *The 1996 Income Redistribution Survey*

Financial Difficulties in Meeting Everyday Expenses in Selected OECD Countries, 2000

Percentage of individuals reporting each of the three types of financial difficulty



Source: Global Attitude Project (2002), "What the World Thinks in 2002"

Coverage Issues

Theory and Practice

The Last Resort

Current Discussions

Basic Philosophy in Designing SS Pensions

Egalitarian Thoughts Prevailing Nationwide

very small proportion of other ethnics than Japanese over the tot. populations

key phrase in making a political compromise:

“ We are all Japanese! ”

no discriminations (classes) politically admitted among Japanese people

Basic Philosophy: SS Pensions for all Japanese through the Social Insurance System (Mandatory for All)

Categories of the Insured in Basic Pensions

1. all the remaining others (22 million, 31%)

2. regular employees (38 million, 54%)

3. dependent spouses of Cat. 2 (11 million, 16%)

full-time housewives and atypical employees with less than 30 working hours per week or with annual income less than 1.3 million yen

***Figures in () indicate the number and proportion of persons in FY 2005.**

Actual Limitations in JPN Social Insurance System: Drop-out from 1st-tier Basic Pensions in 2006

No registration as the insured: 180,000 persons

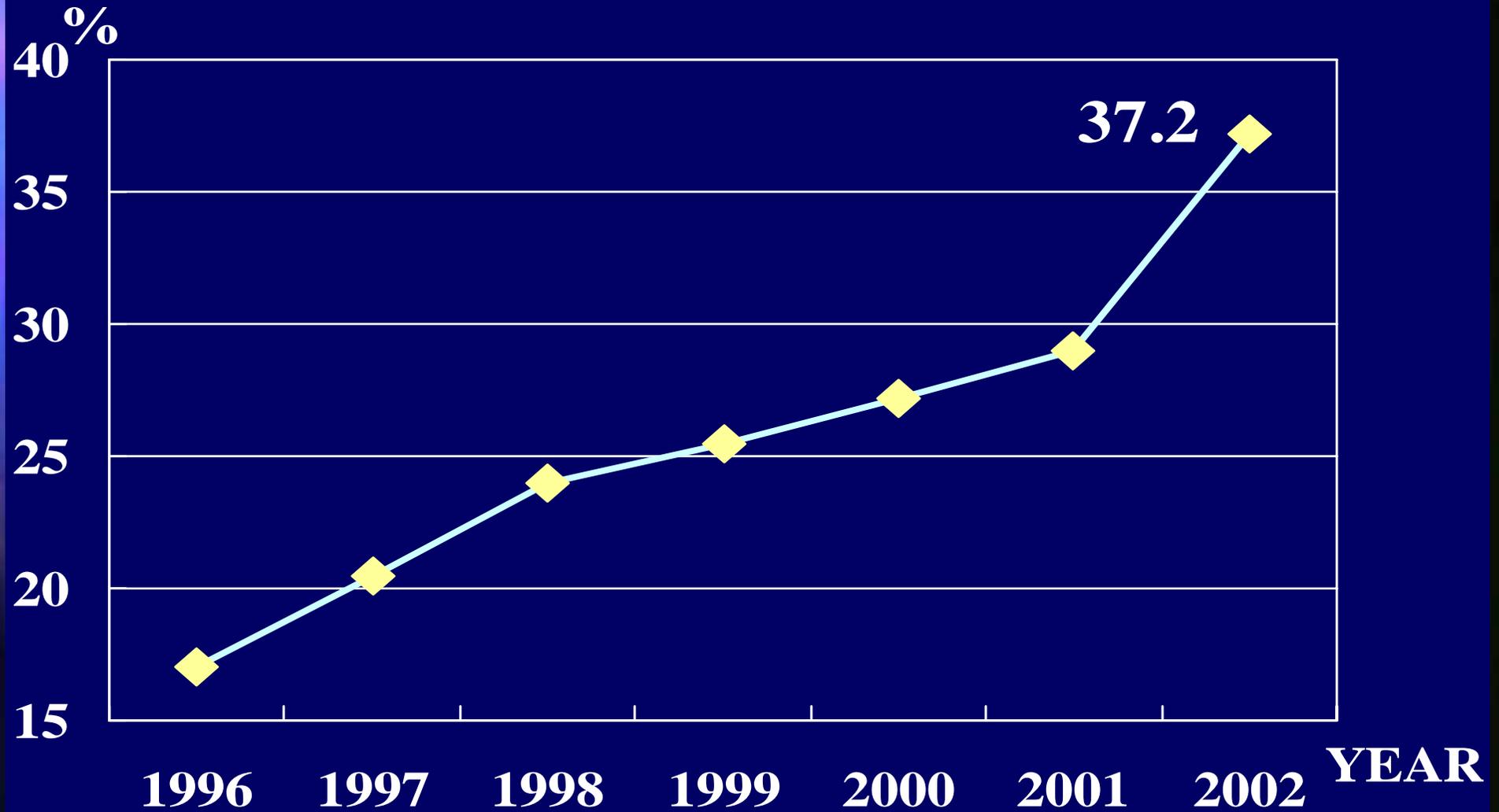
Contributions Exempted: 5.28 million persons

Contributions Delinquent: 3.22 million persons

Total: 8.68 million persons (40.9% of Category 1 persons; 12.7% of all the insured)

Drop-out from Basic Pensions (Category 1)

Delinquency in Paying Pension Contributions



Proportion of Each Component among Category 1 Persons in Basic Pensions (Those of Ages 20-59 in 2005)

Self-employed persons: 4.0 million (20%)

Non-employed Persons: 7.0 million (32%)

(students, unemployed or non-employed persons
excluding “dependent” spouses of regular employees)

Atypical Workers: 6.0 million (27%)

(part-time, seasonal, temporary, and contract employees)

Others: 6.0 million (27%)

Total: 22.0 million

Growing Number in Part-time Employees*

12.66 million persons in 2005 (24%)

3.9 million persons in 1980 (10%)

share of part-time employees in 2005

females (40.6%) /males (12.3%)

females' share in part-time employees

70% in 2005

***part-time employees: less than 35 working hours
per week**

Decreasing Number in Regular Employees

Males:

26.4 million in 1996 23.6 million in 2005

Females:

11.7 million in 1996 10.2 million in 2005

Special Provisions for Full-time Housewives

Dependent spouses of those enrolled in the KNH are automatically entitled to the flat-rate basic benefits, and these spouses are not required to make any individual payments to the SS pension system.

Existing and Estimated Non-beneficiaries of SS Pensions

Those of Ages 65 + **420,000 persons, 1.6%**

Those of Ages 60-64 **310,000 persons, 3.8%**

Those of Ages less than 60 **450,000 persons, 0.7%**

total: 1.18 mil. persons (1.1%) as at April 2007

**cf. Those of ages 60 + with less than 25 covered years
who can meet the minimum requirement (25 years)
with additional contributions in the future:
370,000 persons**

**Number of the Elderly (Age 65 +) Receiving Public Assistance:
556,000 persons in 2005**

Their share among the elderly population: 2.2%

**Their share among the elderly with receiving no SS pension
benefits: 65%**

Beneficiaries of SS pensions or not:

Beneficiaries (262,000 persons, 47%)

Non-beneficiaries (294,000 persons, 53%)

Their Monthly Amount of SS Pension Benefits

46,000 yen on average

**shorter years of coverage, advance payment before age 65, and
mainly non-employees**

Current Hot Discussions for Universal Pensions

a shift from contribution-based basic pensions to tax-financed universal ones

- **what tax source? ear-marked consumption tax?**
- **winners/losers?**
- **transitions, workable?**
- **what differences with public assistance?**
- **claw-back? Income-tested or means-tested?**

Typical are the opinions by the Democratic Party, the JPN Management Federation, and the NIKKEI Newspaper Group.

Coverage of the 2nd-tier Earning-related Pensions (KNH)

Employers of small-size business establishments are often reluctant to participate in the compulsory KNH. Employers in a financial crisis are most likely to postpone the payment of SS contributions. As far as these two cases are concerned, the enforcement abilities of the SIA still remains relatively poor in Japan, compared with those of the tax authorities.

No participation to the KNH, estimated in 2004

630,000 ~ 700,000 business establishments (28 ~ 30%)

2.67 million employees (7.6%)

Source: Ministry of Internal Affairs and Communications

Concluding Remarks

The principal scheme of SS pensions in JPN is a contribution-based insurance one. Yet, its coverage, overall, is among the highest in the world. Family dependence or reliance on public assistance in old age are currently at a very low level in the international standard.

Program designs and their implementations are closely related to coverage issues.

Trustworthy government with its competent and neat implementation is a prerequisite for broader coverage.

Incentives, compliance and accountability are the basic requirements for keeping good coverage or expanding coverage.

Heavier work still lies ahead. Lets go boldly forward until the whole work is done.