

Matching Pension Schemes in Japan

Presentation at the Workshop on the Potential for Matching Defined Contributions (MDC) Design Features in Pension Systems to Increase Coverage in Low and Middle Income Countries

held in Washington DC, USA on 6-7 June 2011

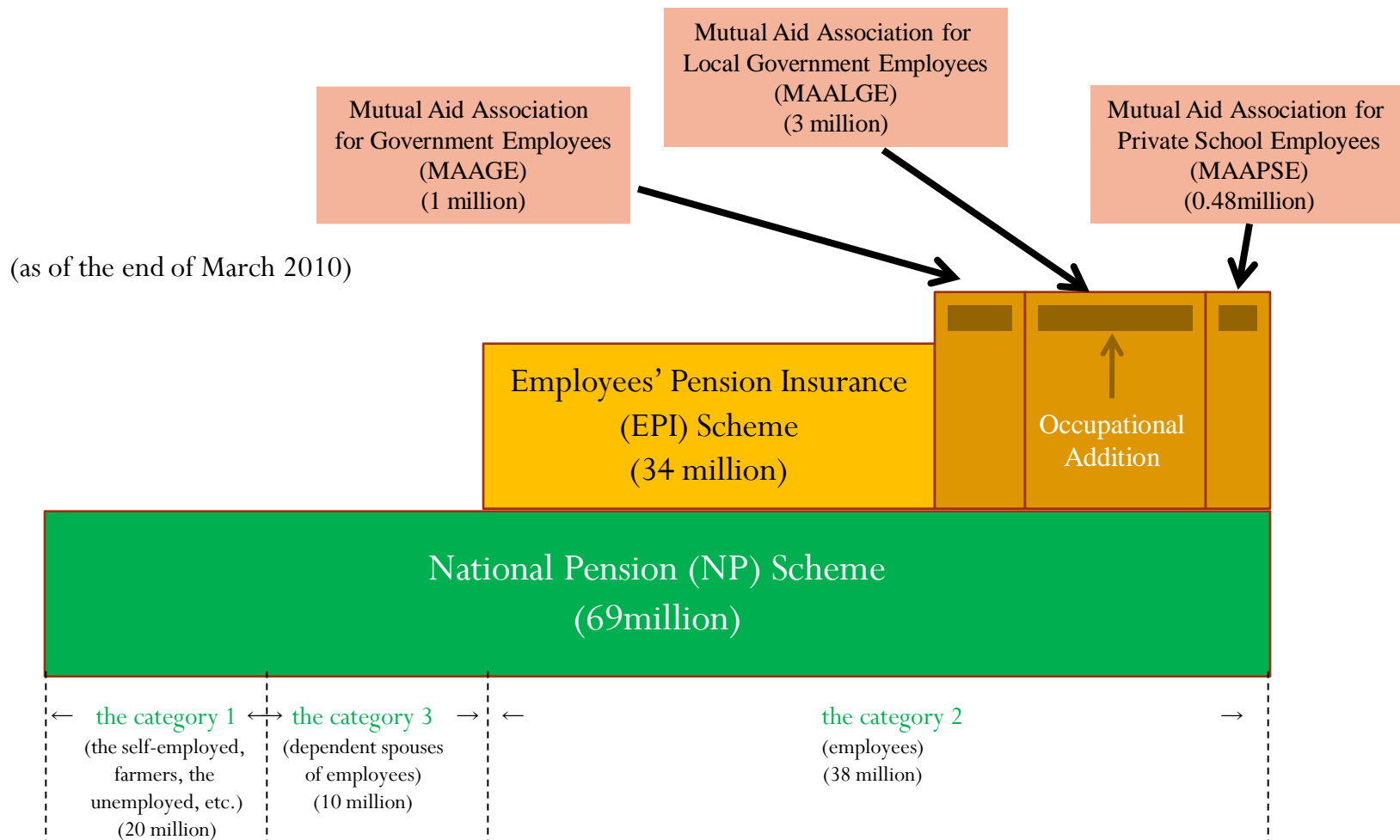
by the World Bank and the RIPPA

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and

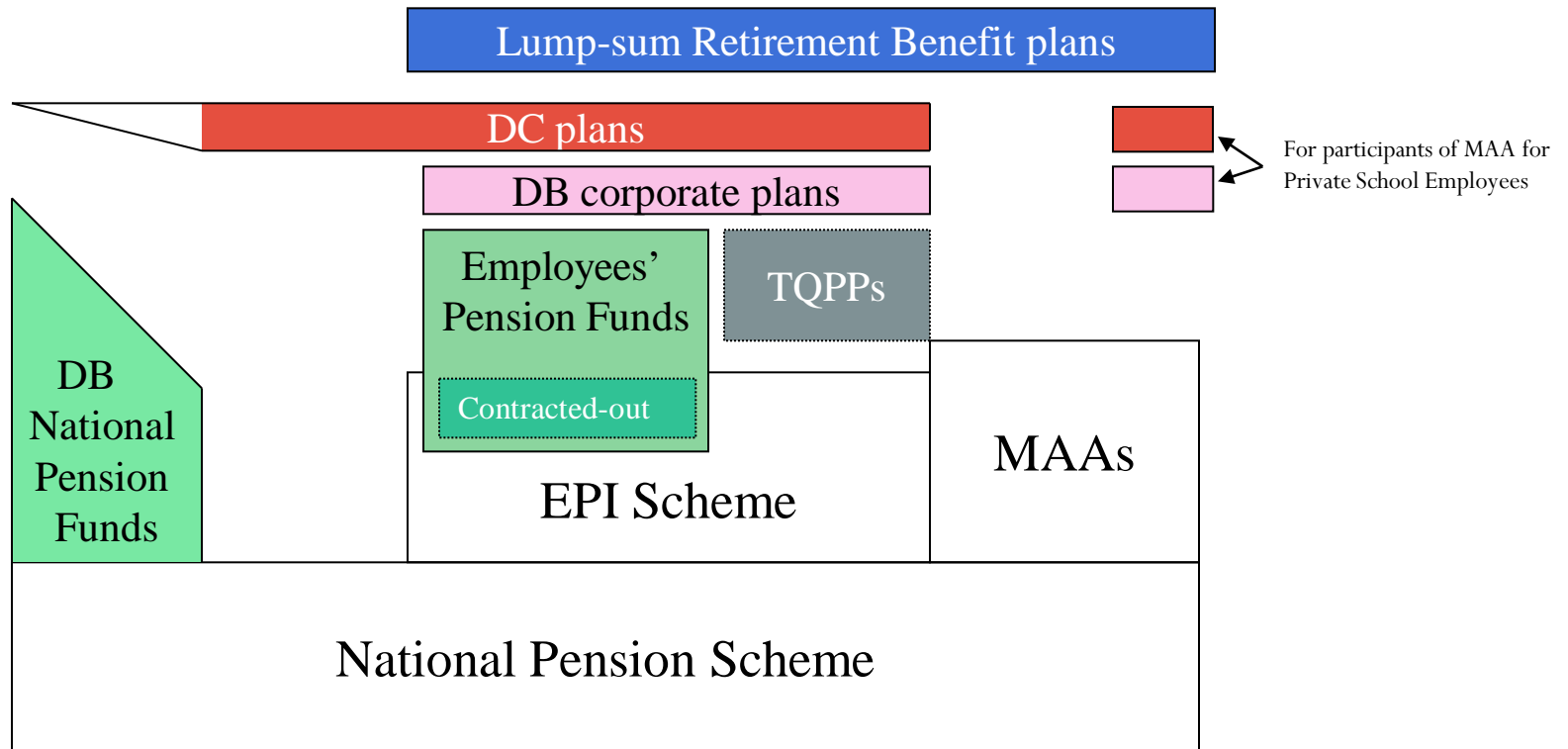
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Social Security Pension Schemes in Japan



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

Complementary Pensions in Japan



Matching Practice in Japan

- On extension of coverage of social security pension schemes
 - 1941: introduction of the Employees' Pension Insurance (EPI) Scheme
 - > Matching by the employers
 - > Matching by the government
 - 1961: introduction of the National Pension (NP) Scheme
 - > Matching by the government
- On reform of the corporate-type Defined-Contribution plans
 - A reform bill to admit the employees' contributions to the DC plans was submitted to the Diet in 2010
 - > not the employers' contributions but the employees' contributions
 - It passed the Lower house and is waiting for the deliberations in the Upper House.
 - Different from the concept of matching in other countries

Matching by the Employers for the EPI Scheme

- Contributions to the EPI scheme: shared half and half by the employees and the employers
- Introduced following other social insurance schemes already existing such as health insurance programme
- Originated in the concept of employers' liabilities or employers' social responsibilities
- Has been kept until now

Matching by the Government for the EPI Scheme

- Expression of the government's resolution that it will support the scheme
 - The scheme will increase the productivity, contributing to the country's economy as a whole.
 - 10 % of the benefit expenditures at the inception
 - > Later it was increased to 20% in 1965.
- Administrative cost
 - 100% borne by the government
 - followed the example of other social insurance programmes then existing

Effects for the EPI Scheme

- Helped the EPI scheme prevail among the salaried employees
 - In the 1960's and 1970's, it was often indicated on the vacancy announcements of companies that they were covered by the social insurance.
- Too heavy burden for some employers, especially in economic recession
 - The portion of such employers is small.
 - However, employers should comply with their social responsibilities.
- General tendencies to avoid formal employment in some industrial sectors.
- Heavy burden for the government
 - Politicians have so far avoided discussions on its financial resources.
 - It is likely to be discussed including the raising of the consumption tax rate.
 - > Currently it is 5%.

Matching by the Government for the Self-employed

- The National Pension (NP) Scheme was introduced to cover those other than employees in 1961.
 - flat-rate benefits for flat-rate contributions due to the inability to attaching the income of the self-employed in an equitable manner with the salaried employees
 - The covered people included those with low income or no income at all.
 - > The contribution exemption provisions (explained later) were introduced.
- Matching was 1 / 3 of the contributions at the inception of the scheme.
 - Later the matching (national subsidy) was converted into the matching for the benefit payment.
 - > due to the budget restrictions
 - > The benefits corresponding to the contribution exemption period is 1 / 3 of the fully contributed case.

Later Development (1)

- The extension of coverage of the NP scheme to the whole nation in 1986
 - Flat-rate contributions with flat-rate benefits remained for the covered people in the first category (non-employees).
 - Contribution exemption provisions remained for them, too.
 - Matching for the employees has also been concentrated on the basic pension benefits with the same rate as the non-employees.
- The increase of the matching rate from $1/3$ to $1/2$ in FY 2009
 - The financial resources for this increase was not decided yet as of the end of May 2011.
 - > In FY 2009 and FY 2010, surplus of a special account of the government was directed as financial resources for the increase.

Later Development (2)

- The partial exemption was introduced in 2002 and in 2006.
 - all or nothing at the inception
 - Half exemption was introduced in 2002.
 - A quarter exemption and three quarters exemption were added in 2006.
- Benefit level of the period exempted
 - total exemption: $1/2$ ($=4/8$)
 - three quarter exemption: $5/8$
 - half exemption: $3/4$ ($=6/8$)
 - a quarter exemption: $7/8$

Contribution Exemption Provisions for Non-employees (1)

- Unconditional exemption
 - beneficiaries of disability benefits
 - beneficiaries of social assistance
- Exemption upon application
 - for those with low or no income
 - 4 grades of exemption
- Delayed payment of contributions
 - Those exempted from paying contributions can pay the contributions later within 10 years with interest.
 - > If paid, the period is deemed to be of full contribution.

Contribution Exemption Provisions for the non-employees (2)

- Contribution exemption system

- monthly contribution rate: JPY 15,020 (for FY 2011)
- upon application

- 4 grades of exemption

- ① total exemption (contribution: JPY 0)

- The previous-year income of each member of the family should be equal to or below:
 $\text{JPY } 350,000 \times \{(\text{the number of dependants}) + 1\} + \text{JPY } 220,000$

- ② three-quarter exemption (contribution: JPY 3,670)

- The previous-year income of the person should be equal to or below:
 $\text{JPY } 780,000 + (\text{tax deductible amount for dependants}) + (\text{social insurance contributions})$

- ③ half exemption (contribution: JPY 7,330)

- The previous-year income of the person should be equal to or below:
 $\text{JPY } 1,180,000 + (\text{tax deductible amount for dependants}) + (\text{social insurance contributions})$

- ④ quarter exemption (contribution: JPY 11,000)

- The previous-year income of the person should be equal to or below:
 $\text{JPY } 1,580,000 + (\text{tax deductible amount for dependants}) + (\text{social insurance contributions})$

Effects for the Non-employees

- Helped the NP scheme extend the coverage.
 - However, could not prevent drop-outs.
 - About 40% of the non-employees who have not applied for contribution exemption do not pay the contributions.
 - > It is about 5% of the total number of the active participants, both employees and non-employees, in the NP scheme.
- Helped maintain the adequacy of benefits for modest income earners.
- Publicity has not been given to the exemption provisions.
- Matching has not been given publicity to, either.
- Heavy burden for the government

Corporate-type DC Plans

- Currently only employers' contributions are allowed.
 - It is the Japanese tradition that most of the DC plans are transformed from the retirement lump-sum benefit plans and the financial resources for the retirement lump-sum plans are born by the employers.
 - > Contribution ceiling: JPY 51,000 per month if there is no other occupational pension plans
JPY 25,500 per month if there is another occupational pension plan

Individual-type DC Plans

- No matching contributions are made from the government.
- Contribution ceiling: JPY 23,000 per month for employees of no DB/DC corporate-type pensions

JPY 68,000 per month for participants of National Pension Funds. JPY 68,000 is the combined contribution ceiling of the NPF and its individual.

A Reform Bill for the Corporate-type DC Plans

- To allow employees to contribute to their accounts
 - Contribution ceilings are not changed.
 - Employers' contributions should be no less than employees'.
- The purpose is to increase the benefits.
 - So far the average of monthly contributions is very low and there is much room to increase the contributions.
- The nature is quite different from matching contributions by the employers for 401(k) plans.
- Has passed the Lower House and waiting for the deliberations in the Upper House.

Lessons for Other Countries

- Not complete but fairly well done
 - It depends on the social context and traditions.
- Informal employment is increasing to avoid employers' matching.
 - Some experts assert that employers' matching should be imposed on any payment of wages irrespective of whether the employment is formal or informal.
 - > Examples are the US and Germany.

*Thank you very much for your
attention!*