

Japan gets younger, but still struggles with longevity risk

By Editor Test Wed, Sep 5, 2012

"Traditionally children would inherit their parents' longevity risk. However, family sizes are shrinking, and the economic circumstances of parents and children have reversed. The last bastion has thus disappeared," a report from Japan says.

Average lifespans in Japan have shortened to 79.44 years for men and 85.9 years for women, according to a survey by Ministry of Health, Labor and Welfare reported by IPE.com. The citizens of Hong Kong are now the world's longest-lived.

That's of little interest to Japanese corporate pension funds, because they generally offer optional lump-sum retirement payouts, and have already adjusted to longevity risk by creating fixed-term pensions and adding optional extensions to the guarantee period. (See [snapshot](#) of Japan pension system.)

Nor does it relieve the anxieties of a healthy 60-year-old with a 20-year fixed-term pension who hopes and expects to live to 90 or beyond.

The Ministry survey indicates that, among 60-year-olds, 64% of men and 82% of women will live to age 80, 23% and 48%, respectively, will reach 90, and 8% and 23%, respectively, will reach 95. One percent of men and 6% of women who reach age 60 will reach 100. Given this broad range, individuals will find it difficult to plan for retirement.

Japan's public pension system tries to guarantee a minimum standard of living, but doesn't always succeed. The minimum cost of living for the elderly is currently close to the model pension payment (¥238,000 or \$3,032 per month for husband and wife combined).

However, this is not necessarily the case on an individual level, where daily expenditures, for example, can vary widely depending on the geographic region.

As one Japanese writer put it in IPE.com recently:

"Longevity risk cannot be overcome on an individual basis. Neither can corporations bear the risk. It is something that must be dealt with at the national level. Discussions should be separated into two parts: averages and the portion beyond the average.

"Self-efforts should aim for average levels, while the government should introduce in parallel some sort of public risk-sharing framework for the portion exceeding this. The crucial factor is sustainability. A system should not dump the risk on one party, but use a flexible approach, even if imperfect, that guards against new burdens.

"Traditionally children would inherit their parents' longevity risk. However, family sizes are shrinking, and the economic circumstances of parents and children have reversed. The last bastion has thus disappeared. The problem needs urgently to be addressed."

