Retirement Income
JOURNAL

Pension Debate Roils Japan

By Editor Test *Tue, Mar 1, 2011*

In January, the ruling party suggested that the public pension should be funded with payroll deductions, and that there should be a taxpayer-funded guaranteed minimum benefit of ¥70,000 ($860) per month for the poor.

"Uncertainty is rife" over public pension policy in Japan, a country with a high savings rate, a population that's shrinking and aging rapidly, and a crazy-quilt of public and private pension plans, IPE.com reported.

Uncertainty notwithstanding, Japan's Government Pension Investment Fund is the largest sovereign wealth fund in the world, with about $1.3 trillion in assets, as of 2008. Its foreign assets alone are worth about $250 billion.

In the latest chapter of Japan's ongoing effort at pension reform, the administration of the Democratic Party of Japan, which came to power in 2009, is clashing with the Ministry of Health Labor and Welfare.

In January, the administration suggested that the public pension should be funded with payroll deductions, and that there should be a taxpayer-funded guaranteed minimum benefit of ¥70,000 ($860) per month for the poor.

Critics say that's a "flip-flop" from the administration's 2009 pre-election promises to fund the public pension with taxes. The government is thought to be compromising with the opposition Liberal Democratic Party, which controls the Upper House.

Prime minister Naoto Kan intends to decide on the broad direction of reform by April and to present a draft plan linked with a tax reform bill by June.

Last August, the *Japan Times* bemoaned the state of retirement security in Japan with the following editorial:

"In fiscal 2009, the premium payment rate for the *kokumin nenkin* pension, which is mainly for self-employed and jobless people, dropped to its lowest ever at 59.98%. The rate is 2.1 points less than in the previous year and fell for the fourth straight year. It is an ominous sign that the premium payment rate for people aged 25 to 29 is only 47%. By contrast, the premium payment rate for people aged 55 to 59 is about 73%.

"The *kokumin nenkin* pension system was originally established for self-employed people. But their participation in the plan has been declining year by year. Now wage earners with one-year or longer employment, temporary employees and part-timers account for nearly 40% of the participants in the kokumin nenkin scheme.

"Permanent workers take part in a different scheme — the *kosei nenkin* pension. It is safe to assume that the percentage of irregular workers among the *kokumin nenkin* participants is increasing. Since their wages are low, the monthly premium of ¥15,100 represents a heavy burden. In addition, people who solely rely on *kukumin nenkin* pension receive only about ¥48,000 a month on average, despite long years of premium payment.

"Private-sector companies entrusted with the job of encouraging people to pay premiums or informing low-income people about the existence of a system of premium exemptions or reductions are not performing well. At 312 places nationwide where such companies are undertaking the task, the goal in premiums collection was achieved only at 13 locations. Drastic reform is in order. Most workers at these companies use the telephone to contact people, but only 4% actually visit them.

"At present, some 420,000 elderly people are pensionless. It is feared that some 760,000 people will become pensionless because they have failed to pay premiums. To become eligible, one has to pay premiums for at least 25 years. The government must immediately reform the pension system, including shortening the minimum required period of premiums payment and expanding the kosei nenkin system to cover irregular workers."

This excerpt from a 2005 analysis by Tower Watson offers a glimpse of the austerities that Japan began applying to its pension system during the past decade:

"Under current reforms, the normal retirement age for a basic pension [in Japan] will gradually rise from 60 to 65 by 2013 for men and by 2018 for women. The normal retirement age for the EPI program will reach 65 by 2025.

"Japan has modified its benefit structure to automatically reduce benefits if its pension system becomes financially unbalanced. The 2004 reforms changed the benefit formula and increased future tax rates. The average income replacement rate will drop from 59% to 50%.

"Payroll taxes will increase from 13.5 to 18.3% by 2017. By 2009, the government will pay one-half of basic pension benefits, up from one-third today. There are plans to link the indexing of benefits under both EPI and the basic pension to changes in life expectancy and workforce size, which would result in further cuts to benefits.

"Although the planned benefit reductions are substantial, the cuts may not be large enough to keep the payroll tax from rising substantially in coming years. Moreover, it is not clear how the government will finance its higher share of benefits paid from the basic pension."