

Roles of the Social Security Pension Schemes and the Minimum Benefit Level under the Automatic Balancing Mechanism

Junichi Sakamoto

The major objective of the social security pension schemes is to prevent people who encounter contingencies that may trigger economic difficulties in life, such as retirement due to old age, being unable to work due to disability and the cessation of income due to the death of the breadwinner, from becoming impoverished. To fulfill this objective, the benefit level must be adequate.

Compared to other countries, the pace at which the Japanese population ages is incomparably much faster. To cope with this environmental change, social security pension reforms have been repeatedly implemented since the 1980s. In particular, in and after the 1985 pension reform, measures requiring increased burdens on the part of individuals have been taken repeatedly such as the reduction of the benefit level. Political battles regularly occurred between the ruling and opposition parties each time that the reform bill was submitted to the Diet.

Under these circumstances, the population projections published in January 2002 indicated further decline in the birth rate and improved longevity, which disrupted the financial equilibrium attained by the 2000 pension reform.

With reference to the ideas adopted for the pension reforms in Sweden in the 1990s, the 2004 pension reform developed a method in which the contribution schedule is first fixed and then, based on such schedule, the benefit level is determined. The benefit level is gradually reduced by keeping the indexation in check until financial balance is attained.

While this framework eliminates anxiety about future increases in the contribution level, anxiety about the benefit level still remains. To deal with this anxiety and to ensure the adequacy of the benefits, which is required for the social security pension schemes as their essential objective, the minimum benefit level was written into the law. In this sense, the provision of the minimum benefit level is very important in that it represents the fundamental role of the social security pension schemes.