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## 1996 IACA Conference National Report for Japan

### 1 The Actuarial Profession

In Japan, there are actuaries who work in the traditional actuarial profession, and actuaries who specialize in pensions called Certified Pension Actuaries.

A certified Pension Actuary (CPA) is a legally designated professional who is engaged in actuarial services for a corporate pension plan. It is provided by law that actuarial reports submitted by Employees' Pension Funds (EPF) to the Ministry of Health and Welfare (MHW) must bear a signature of approval of a CPA.

There are two organizations for actuaries in Japan, one under the Ministry of Finance and the other under the Ministry of Health and Welfare. The Institute of Actuaries of Japan (under MOF) was founded in 1899, and the Japanese Society of Certified Pension Actuaries (under MHW) was established in 1989.

#### 1-1 The Institute of Actuaries of Japan

Those who are called Actuaries in Japan are Fellows of this institution. Actuarial valuations for the Tax Qualified Pension Plan must be done by these Actuaries. Those who pass given examinations are accepted as Fellows.

#### 1-2 Actuaries Practicing in Japan

Membership of the Institute are as follows:  
(as of October 1, 1995)

	Life	Non-Life	Trust & Banking	Designated Firms*	Government, etc.	Total
Senior Members	9					9
Fellow	360	105	103	31	137	736
Associates	471	137	83	52	143	886
Student	861	356	125	152	260	1754
Sponsor	31	29	8	23	15	106

\* Designated firms consists of consulting companies mainly providing services on the Employees' Pension Funds.

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The number of actuaries in Japan has been increasing gradually. This is mainly due to strong demand for Pension Actuaries.

### 1-3 The Japanese Society of Certified Pension Actuaries

The principal objectives of the Japanese Society of Certified Pension Actuaries (JSCPA) is upgrading the abilities and preserving the discipline of the CPA, and implementing the projects necessary for the development of actuarial services. The JSCPA supports its members in their service practice by promoting the exchange of information between CPAs and by extending professional education to them. At the same time, it has been active in making proposals for the improvement of the corporate pension scheme to the MHW.

Details on the standard credentials expected of CPAs are designated by the Ministry of Health and Welfare. Applicants are usually accepted as CPAs if they have five years experience in designing and calculations of pension plans and have passed the examinations to become Actuaries.

### 1-4 Certified Pension Actuaries practicing in Japan

Current Membership of the JSCPA are as follows:  
(as of October 1, 1995)

	Life	Trust & Banking	Firm	Government, etc.	Total
Fellow	88	75	26	17	206
Associates	44	20	1	48	113

In 1988 the number of members were 102. As there has been an increase in Pension assets, so has the number of CPAs.

### 1-5 Consulting firms in Japan

Until recently, the consulting industry has not needed actuaries. All of the actuarial work has been done in-house at life insurance and trust & banking companies. However, there has been a growth in the demand for actuarial services from the consulting industry due to the following reasons:

- (1) It has been designated that new designs of Employees' Pension Fund's plans require a signature of approval by Actuaries.

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(2) The use of ALM and other methods for efficient investment and better performance, leading to a demand for actuaries in an independent organization.

The above are restricted to the corporate pensions, or Employees' Pension Funds, which are under the jurisdiction of the Ministry of Health and Welfare. The EPF is a special judicial person which pays out a substitutional pension on behalf of the government.

Actuarial Consulting on TQPPs, Life insurance, Medical insurance and non-life insurance, are strictly restricted by the Ministry of Finance.

The approximate asset amount of corporate pension are as follows:  
EPF: ¥35,000 trillion  
TQPP: ¥15,000 trillion

## 2 The Economy

Japan is still haunted by the burst of the bubble economy as can be seen in the bad debts problems related to "Jusen" housing loans companies. We expect the economy to enter the recovery stage when this problem is taken care of. The LDP is back, although as a member of a coalition. The yen is becoming less chaotic, a good element to the economy.

### Major indices

CPI: -0.7% YoY (November 1995)  
Unemployment rate: 3.3% (November 1995)  
Exchange Rate: 1US\$ = ¥105.8 (January 1996)

## 3 Japanese Social Pension

Public pension consists of the National Pension Plan and additional plans for people employed in different business sectors.

For the add on pension, the Employees' Pension Insurance will be described here. This is a public plan applied to people employed in the private sector. There are no additional benefit of this sort for

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self employed people. For civil servants, there are other private plans comparable to corporate pension plans; this report will not elaborate on this.

### 3-1-1 The National Pension Plan

- Eligibility: age 20-60
- Date of first payment: age 65
- Pension Amount: ¥65,000 a month for 40 years of participation
- Others: disability pension and survivors' pension
- Cost: ¥11,700 per month

### 3-1-2 Employees' Pension Insurance

- Eligibility: date of hire-65
- Date of first payment: age 60
- Because the national pension does not start payment between ages 60 and 65, there is an additional amount paid to compensate for this.
- Pension Amount: average base salary x months membership x 7.5/1000
- Others: disability pension and survivors' pension
- Cost: monthly base pay x 14.5% per month  
bonus x 1% two times a year

### 3-2 Corporate pension

Major corporate pensions are as follows:

#### Tax Qualified Pension Plans:

- Under jurisdiction of the Ministry of Finance (Based on Corporation Tax Law)
- Less restrictions on plan designs (e.g. guaranteed pension, only for YoS until normal retirement age)
- Can design plans for a small number of people.
- The plan must have an actuarial valuation.

#### Employees' Pension Fund:

- Under the jurisdiction of the Ministry of Health and Welfare (based on (Employees' Pension Law)
- Restriction on plan designs (pension for life, must pay to short terms membership)

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- Must have more than 500 participants
  - Must have approval from Actuaries for all new and modification of plans.

#### 4 Accounting Standard

There is currently no common practice of assigning actuaries for scientific valuation of liability. Most cases of such services are those of foreign companies and companies receiving capital from abroad, using FAS or International Accounting Standard for liability valuations. There has been a growing number of foreign companies in Japan using the FAS to calculate the liability.

#### 5 Major changes in the Insurance and Pension services

##### 5-1 Corporate Pension

Due to strong pressure from the United States, strict restrictions were deregulated, currently for the EPF. For the TQPPs, no such deregulations have been made. Future deregulations for the EPF are as follows:

- (1) For actuarial valuations, asset is calculated using the market related value instead of book value.
- (2) For up to 100% of the plan asset, investments can be made by other than trust banks and life insurance companies, instead of 33%.
- (3) The 5.3.3.2. investment allocation rule will be terminated.

Although there are many regulations in this field, the above three alone are expected to stimulate demand for services by Consulting Firms.

##### 5-2 Deregulation of services

Due to stringent regulations, services by life insurance and non-life insurance companies were restricted, they could not enter the other's business. In addition, banks were not able to enter the trust

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business, except for trust and banking companies, which obtained special approval.

Due to new deregulation, life insurance companies are now able to create subsidiaries in the non-life insurance business, and vice versa. Likewise, banks are now able to create subsidiaries in the trust business. Dramatic changes are expected in the pension related businesses as a result of this deregulation; however, it is yet too early for anyone to project what they are.

### 5-3 Separate accounting

Insurance companies have begun using separate accounting. By this method, life insurance companies began separate management of investment performance of personal insurance and corporate pensions. These companies have hitherto been cutting payments to personal pensions and given extra to corporate pensions; they cannot do this any more.

### 5-4 Payments to corporate pensions by life insurance companies

Regulations state that actuarial valuations must use 5.5% as the assumed interest rate. As a result, insurance companies had to guarantee a minimum of 5.5% performance. Due to decline in investment performance in general, current guaranteed interest rate is 4.5%. In April 1996, this rate will be reduced further to 2.5%. As a result, life insurance companies' market share for pension investment is expected to change.