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Topic C. Actuarial Valuation Methods and Assumptions

Role of the Actuary in the process of unifying the social security pension schemes

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In Japan the discussion of unifying the social security pension schemes is going on. It has been a continued discussion since 1970's.

For historical reasons, there were 10 separate schemes in 1970's. Apart from the general schemes like the Employees' Pension Insurance (EPI) scheme covering the private employees and the old National Pension (o-NP) scheme covering the farmers and the self-employed people, there were 8 schemes for specific occupations like government employees, local government employees, seamen, National Railway Company employees, etc. The benefit levels and the contribution rates varied from scheme to scheme though, as the government declared in 1961, everyone had come to be compulsorily covered by one of these schemes depending upon his/her occupation by then.

There were two main driving forces that caused the discussion of unifying these schemes to be on the policy agenda. One was the disparity of benefits and contributions between the schemes. The other was the change in industrial structure that increased young active members for some industrial sectors while decreasing them for others. These forces gave rise to the discussion that the benefits and the contributions should be made equal for everyone by unifying the schemes.

It is often said that Japan is a society where people do not care if they are poor but do mind if they are unequal. This sort of sentiment has certainly supported the argument that the social security pension schemes should be equalized. This may be a sort of 'pension jealousy' discussion.

At the same time real problems became clear in 1970's. In those days the ageing of population was hardly felt, but some schemes encountered financial difficulties due to the real or prospective decrease of active members. They were the o-NP scheme, the Seamen's Insurance and the Mutual Aid Association for National Railway Company Employees. Later the Mutual Aid Association for Japan Tobacco Company Employees joined them. The main cause common to all of these financial difficulties was the decrease of the active members due to changes in industrial structure.

In the end the o-NP scheme extended its coverage to the whole nation in 1986 and started to provide the flat-rate basic pensions to them. Meanwhile the schemes for employees were changed into the schemes that should provide earnings-related benefits. When this was enacted, there were 8 schemes for employees as the Seamen's Insurance was merged with the EPI scheme by the same legislation.

In the wake of the framework reform in 1986, the government set about tackling the financial problem of the Mutual Aid Association for National Railway Company Employees. After several temporary measures were taken, it was finally merged with the EPI scheme in 1997. At the same time, the Mutual Aid Association for Japan Tobacco Company Employees was merged with the EPI scheme. It had already been in financial difficulty in late 1980's. Furthermore the Mutual Aid Association for Nippon Telegraph and Telecommunication Employees was merged with the EPI scheme by the same legislation. It was not in financial difficulty but was one of the three government-owned companies that

had been privatized in late 1980's, the rest being National Railway Company and Japan Tobacco Company. The idea was that the employees of privatized companies should be covered by the EPI scheme.

In addition to these, the Mutual Aid Association for Agricultural, Fishery and Forestry Cooperative Employees encountered financial difficulty due to restructuring of the cooperatives and was merged with the EPI scheme in 2002. As a result of these mergers 4 schemes for employees are remaining. They are the EPI scheme and three Mutual Aid Associations for Government Employees, Local Government Employees and Private School Employees. The government parties are now discussing their unification.

In the process of these mergers and unifying discussions, actuaries working for the government have deeply been involved in the task. The roles they have played can be classified into two categories. One is the role as actuarial supervisor of the social security pension schemes. The other is the role as actuarial adviser for constructing the financial framework of mergers.

In 1980 the Actuarial Subcommittee of the Social Security Council¹ was set up and given the function to survey the actuarial valuation methods and assumptions the social security pension schemes adopted for their financing programmes and evaluate them. This supervisory role has continued up to now.

The actuarial advice for constructing financial framework of mergers has been provided mainly by the Actuarial Affairs Division of the Pension Bureau, Ministry of Health, Labour and Welfare.

In this paper the author would like to describe the two roles of the actuary in the process of unifying the social security pension schemes, going into the technical details of the financial framework of the mergers. At the same time he would like to extend the experiences to the future perspective and draw some lessons for the future actuarial work.

Keywords: Unification of social security pension schemes, role of the actuary, the Actuarial Subcommittee of the Social Security Council, the Actuarial Affairs Division of Pension Bureau, financial framework of mergers, pension jealousy, equity, change in industrial structure, broader financial basis