

21st Century Risks & Rewards for Actuaries

IACA, PBSS and IAAust Colloquium

31 October – 5 November 2004

Shangri-La Hotel, Sydney, Australia

SYNOPSIS

Impact of ageing population on companies' retirement benefit strategy in Japan

Ryo Matsubara

According to recent projections, Japan's population is likely to peak out in two years and is expected to decline substantially over the next half century. Low fertility rates and long life expectancy cause these changes.

These demographic changes will have a negative impact on the labor force. If the participation rate into labor force does not change, the labor force will significantly decrease as the working-age population declines. In order to moderate the labor shortage, it is necessary to increase the participation rate of women and older people.

The ageing of the population naturally affects social security pension plans. How does it affect corporate pension plans?

One of the purposes of a retirement benefit plan is to provide an orderly pattern of retirement from the company. Decreasing population might encourage companies to retain elderly employees. In this respect, the ageing population could significantly affect companies' HR strategy and thereby the benefit policy of corporate pension plans. How to retain elderly workers could be a substantial issue in the near future.

Lump-sum benefits are usually paid from retirement benefit plans of Japan. The annuity benefits are defined as actuarial equivalents of the lump-sum benefits. This type of retirement benefit plan could provide age-free benefits, where the age of retirement might not affect the value of the lump sum benefit but the equivalent annuity benefit will increase the later retirement is delayed.

In order to retain the elderly employees, companies must reconsider their traditional labor practice, such as seniority wage, mandatory retirement age, as well as their retirement benefits plans. A cash balance type plan might be a good solution for employers who would rather pay for performance than seniority and for those that wish to retain their older workers.