



# The impact and implication of the 2016 pension legislative revision in Japan

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# Outline

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1. Social Economic Environment
2. Public Pension
3. Private Pension
4. The Way To Achieve Income Security  
For The Elderly
5. Conclusion

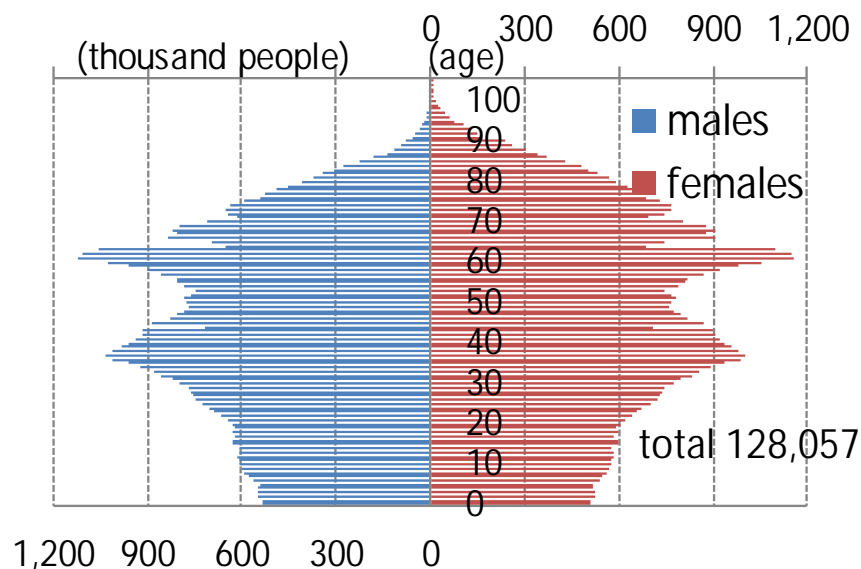


# 1. Introduction

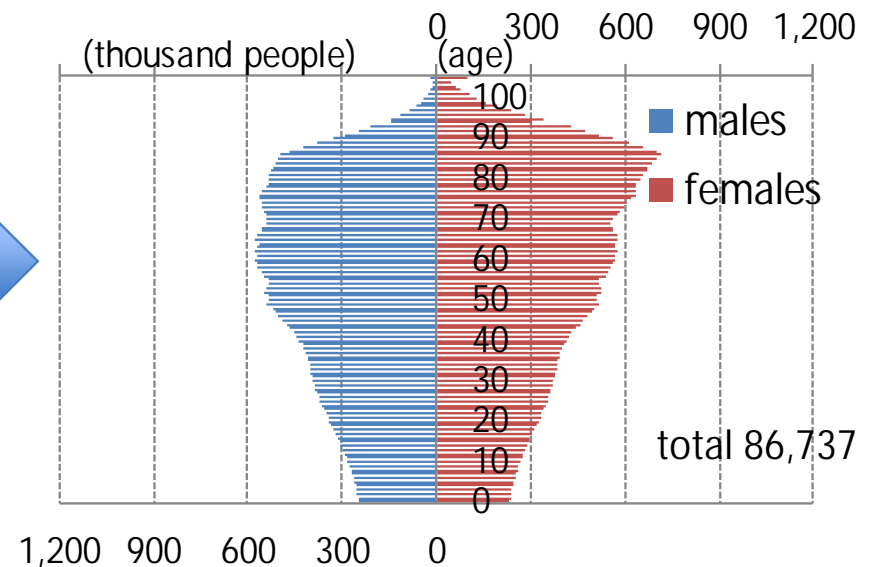
## (1) Population and change of age structure

- The total population in Japan has changed from a state of increase to one of decrease, and the population will decrease over the long term.

Japanese population (2010)



Japanese population (2060)

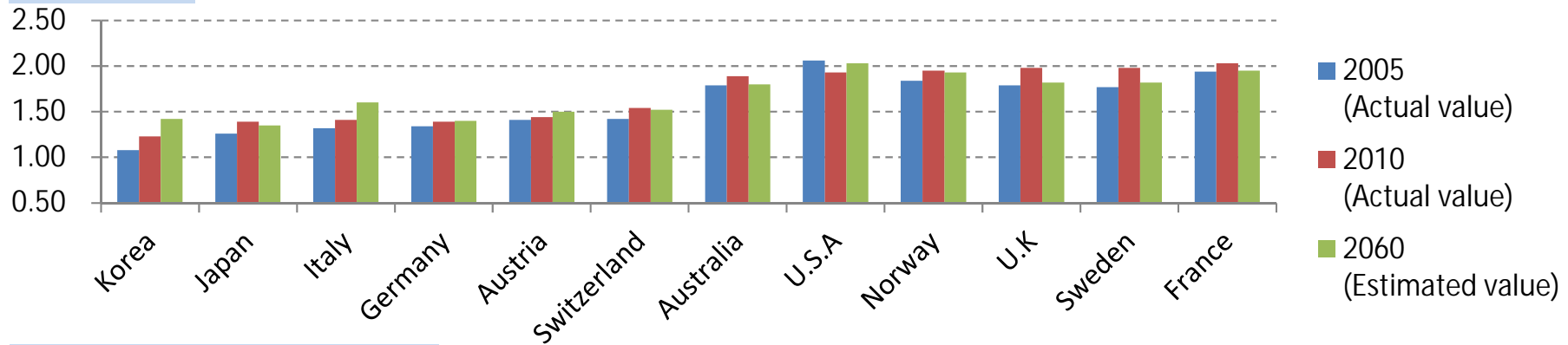


# 1. Introduction

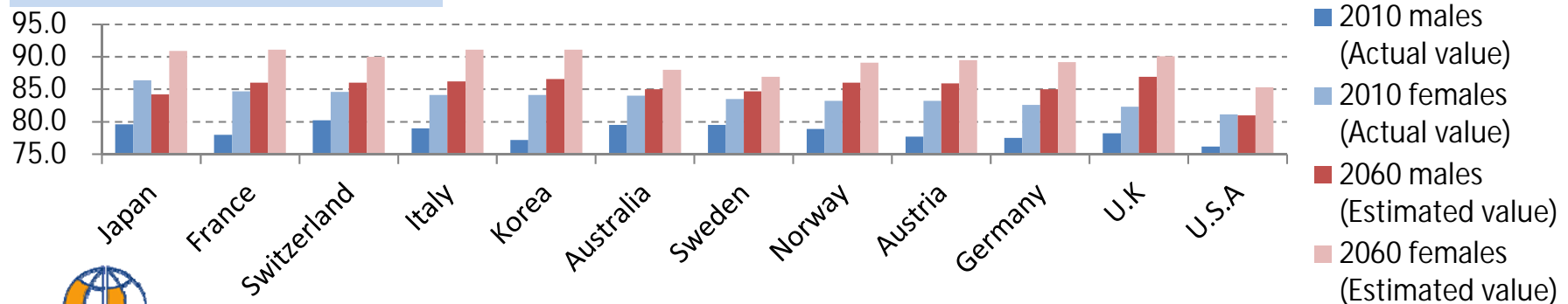
## (1) Population and change of age structure

- In Japan, the birthrate is expected to decrease. The average life expectancy is expected to increase to approximately 85 to 90 years.

Birthrate



Average life expectancy



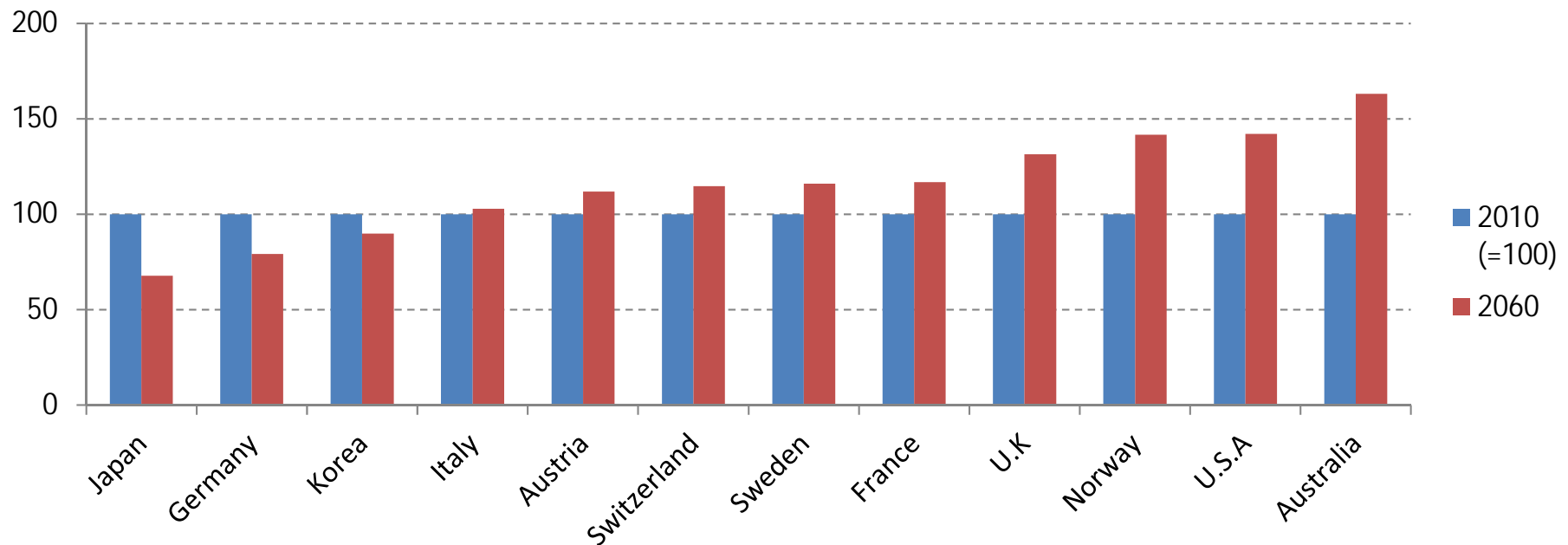
(Source: National Institute of Population and Social Security Research)

# 1.Introduction

## (1) Population and change of age structure

- Japan will face unprecedented population decline and an aging society.

Total population increase rate from 2010 to 2060

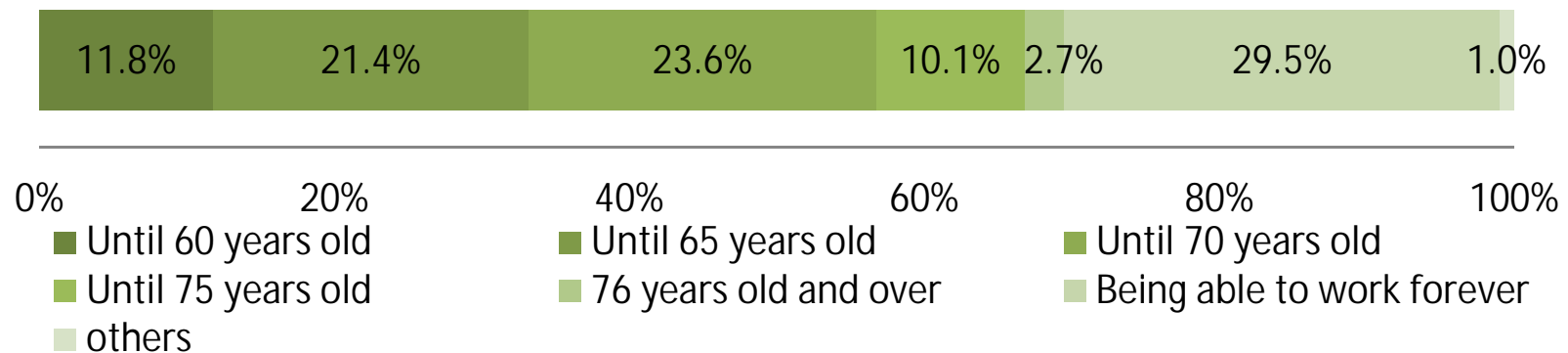


# 1. Introduction

## (2) Employment situation for the elderly

- The aging of the population is progressing very rapidly.
- Under these circumstances, the elderly's motivation to work is very high.

### Work motivation for the elderly



# 1.Introduction

## (2) Employment situation for the elderly

- Currently, the government has improved the work environment so that the elderly can continue working until at least the standard pensionable age (65 years) of public pension.

### Employment rate

		Japan	U.S.A	U.K	Germany	France	Italy	Sweden	Korea
Total	55 ~ 59 years	75.4%	68.1%	70.8%	74.9%	67.1%	57.7%	82.0%	68.1%
	60 ~ 64 years	57.7%	52.0%	45.3%	46.5%	21.7%	22.8%	64.4%	56.1%
	65 ~ 69 years	37.1%	29.9%	19.5%	11.1%	5.9%	8.0%	19.5%	42.5%
males	55 ~ 59 years	88.4%	73.0%	75.4%	80.7%	71.0%	69.7%	84.3%	82.5%
	60 ~ 64 years	71.3%	56.8%	55.3%	54.8%	23.7%	30.7%	68.6%	69.8%
	65 ~ 69 years	46.9%	34.7%	24.4%	14.4%	7.1%	12.6%	24.3%	54.4%
females	55 ~ 59 years	62.6%	63.6%	66.3%	69.3%	63.5%	46.3%	79.7%	53.9%
	60 ~ 64 years	44.5%	47.6%	35.8%	38.7%	19.9%	15.4%	60.2%	43.1%
	65 ~ 69 years	27.8%	25.7%	15.0%	8.1%	4.8%	3.8%	14.8%	32.6%



(Source: Ministry of Health, Labor and Welfare)

# 1.Introduction

## (2) Employment situation for the elderly

- The biggest factor is economic motivation to earn income to pay for living expenses.
- The elderly tend to save a certain portion of their income due to uneasiness regarding their futures.

### Average savings and liabilities (per households)

(dollar [at the rate of 110 yen to the U.S.dollar])

	savings			liabilities		
	50 ~ 59 years	60 ~ 69 years	70 ~ years	50 ~ 59 years	60 ~ 69 years	70 ~ years
2006	159,273	219,273	225,545	50,545	20,455	11,000
2007	154,273	224,909	220,545	54,000	20,091	8,182
2008	152,273	208,000	219,545	47,727	22,455	11,273
2009	151,818	200,182	214,636	48,091	18,273	10,545
2010	150,909	210,364	204,818	50,091	20,091	9,818
2011	144,364	214,818	201,000	50,091	20,545	8,182
2012	152,273	204,455	199,727	48,727	17,909	8,727
2013	145,000	216,818	216,818	55,182	18,545	8,455
2014	151,182	225,818	222,909	59,455	19,364	7,091
2015	159,182	218,364	217,182	58,636	17,818	7,545



(Source: Ministry of Internal Affairs and Communications)

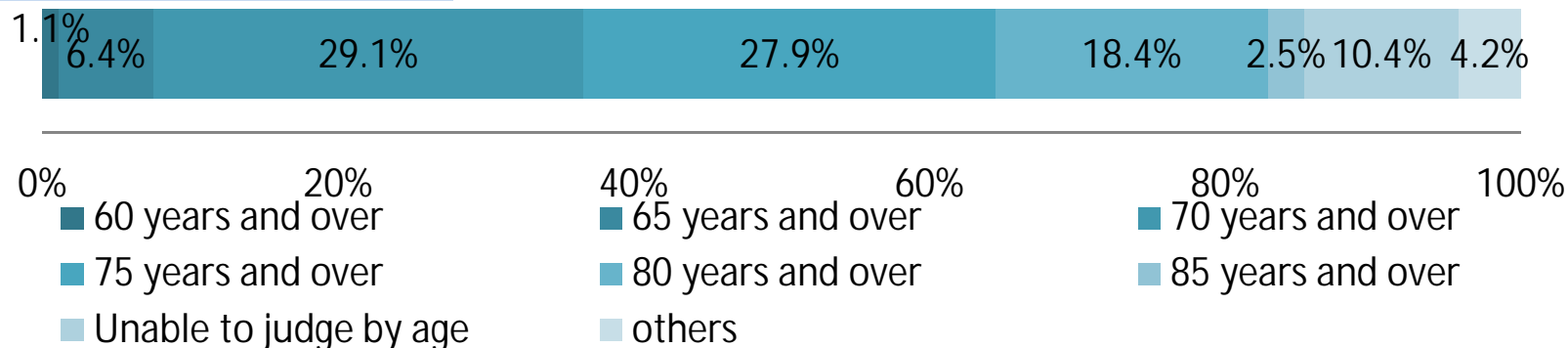


# 1. Introduction

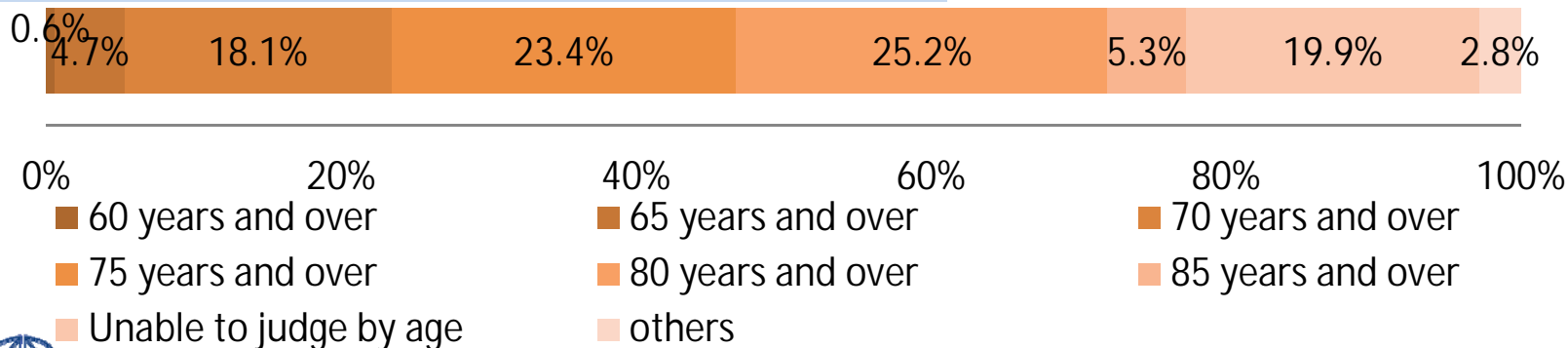
## (2) Employment situation for the elderly

- There are still many active people, especially aged 65 to 70 years.

How old are "the elderly"?



How old are "the elderly who should be supported"?



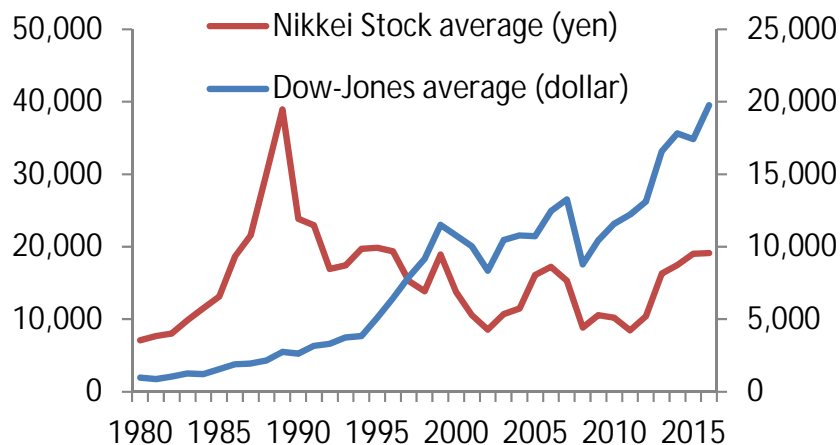
(Source: Cabinet Office Survey)

# 1. Introduction

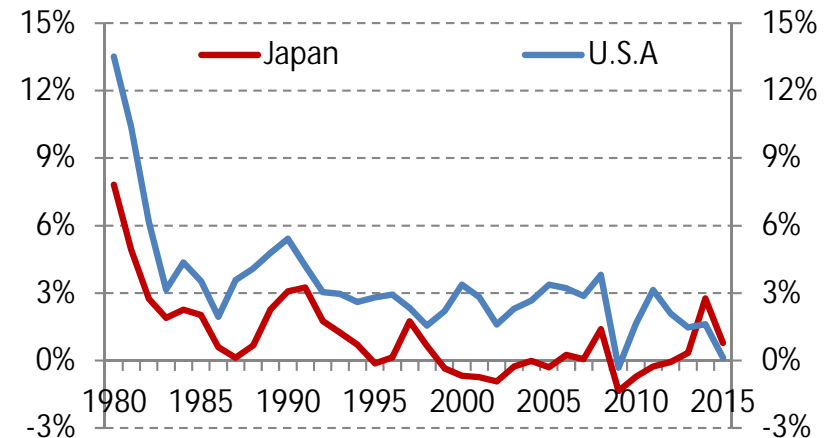
## (3) Japanese market environment

- Japanese economy has been sluggish for more than 20 years since the collapse of the bubble in the 1990s.
- Also, since the latter half of the 1990s, the inflation rate has declined.

Stock market trend



Inflation rate trend

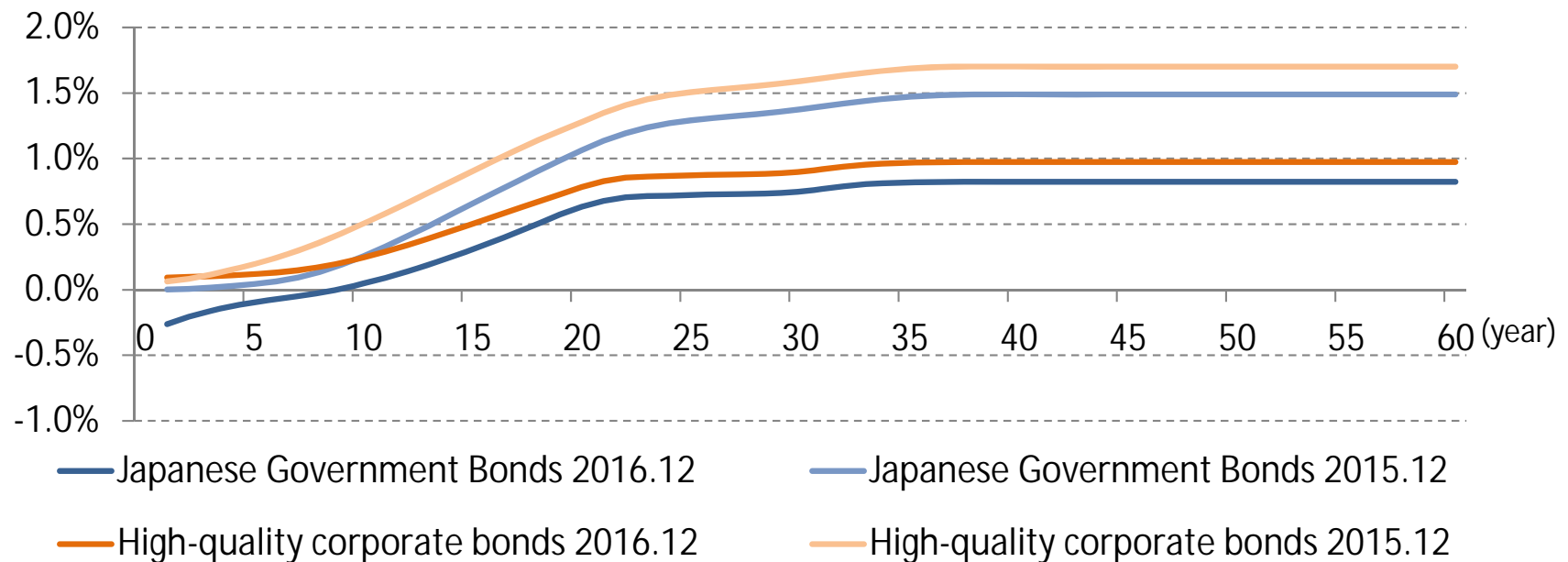


# 1.Introduction

## (3) Japanese market environment

- The government bond spot rate of about 10 years or less is negative.
- Many companies in Japan use the government bond spot rate as the discount rate used for retirement benefit obligations.

Yield curve in Japan



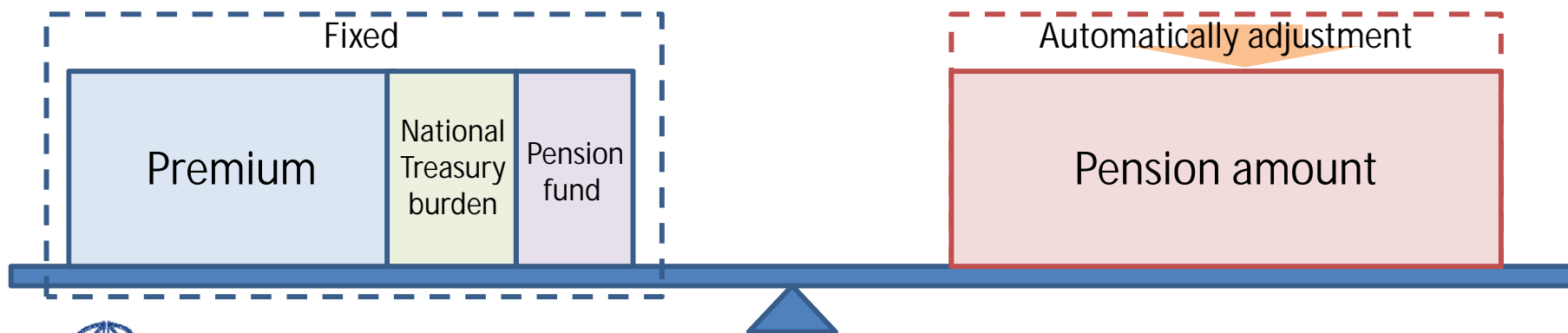
(Source: Mizuho Trust & Banking Co., Ltd.)

## 2. Public pension

### (1) Introduction of pension fiscal scheme

- Public pension is fundamentally managed in a pay-as-you-go fashion.
- The mechanism to automatically balance benefits and burden has been introduced in 2004.
  - Increase of the premium (13.58% to 18.3%)
  - Increase of the national treasury burden (1/3 to 1/2)
  - Utilizing pension fund
  - Introduction of the macroeconomic slide

#### Pension fiscal scheme



(Source: Ministry of Health, Labor and Welfare)

## 2. Public pension

### (2) Status of pensionable age selection system

- There is the mechanism that people can increase the pension amount by deferring the pensionable age.

Pensionable age selection system (60 to 70 years)

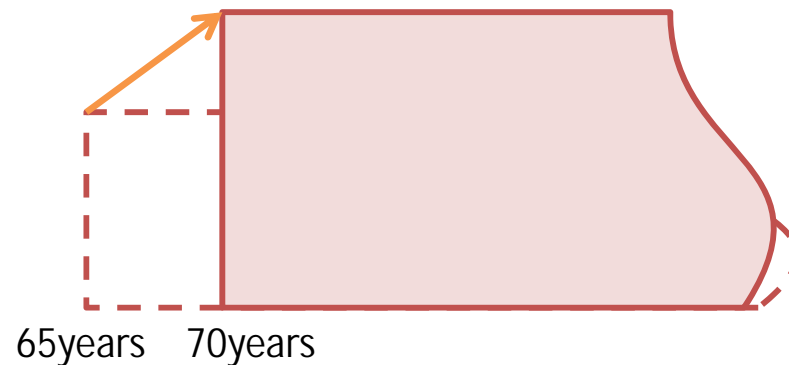
Advanced receipt

Decrease by 30% (6% per year)



Deferred receipt

Increase by 42% (8.4% per year)

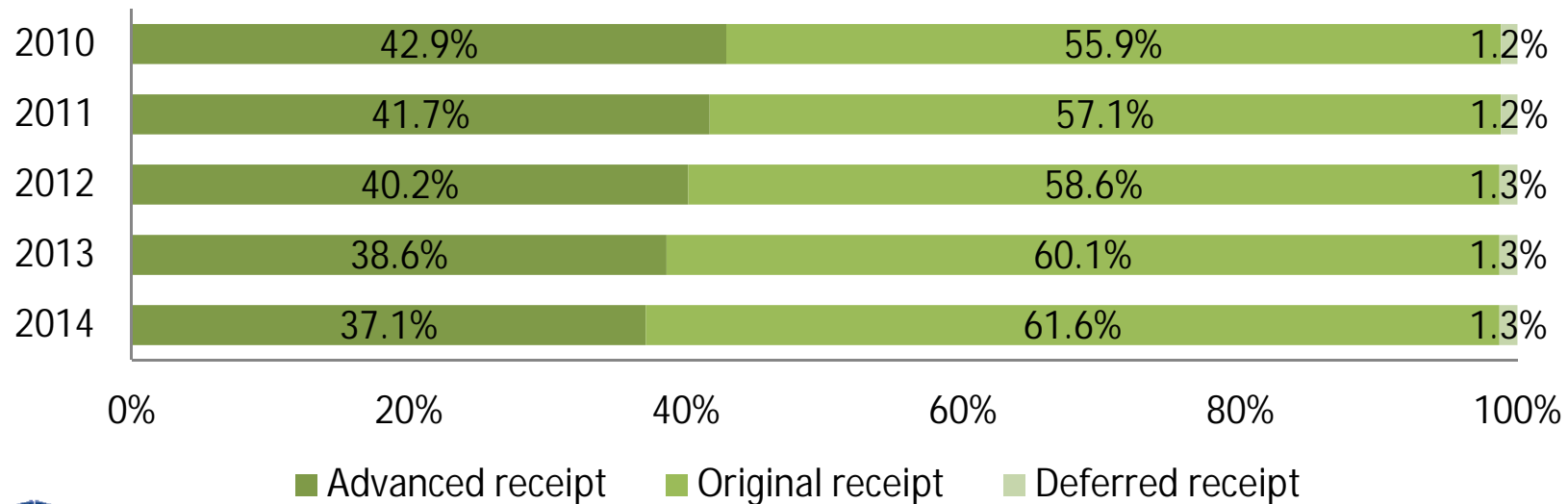


# 2.Public pension

## (2) Status of pensionable age selection system

- There are very few people who select to defer the pensionable age.
- In order for this system to become popular, enhancement of social security education including education on the pension system is an important issue.

Trend of selection



(Source: Ministry of Health, Labor and Welfare)

## 2. Public pension

### (3) Outlook for FY2014 financial verification

- Financial verification is carried out once every five years.
- New prospects are created with the results of population and economics. Financial verification acts like a regular check on the state of the public.

#### Projection of income replacement rate

		Economic situation assumption		Economic premise			Income replacement rate
		Labor force ratio	Total factor productivity growth rate	Inflation rate	Wage increase rate	Investment yield	
A	Cabinet Office "Economic recovery case"	Participation in the labor market progresses	1.8%	2.0%	4.3%	5.4%	50.9%
B			1.6%	1.8%	3.9%	5.1%	50.9%
C			1.4%	1.6%	3.4%	4.8%	51.0%
D			1.2%	1.4%	3.0%	4.5%	50.8%
E			1.0%	1.2%	2.5%	4.2%	50.6%
F	Cabinet Office "Reference case"	Participation in the labor market will not proceed	1.0%	1.2%	2.5%	4.0%	45.7%
G			0.7%	0.9%	1.9%	3.1%	42.0%
H			0.5%	0.6%	1.3%	2.3%	35 ~ 37%



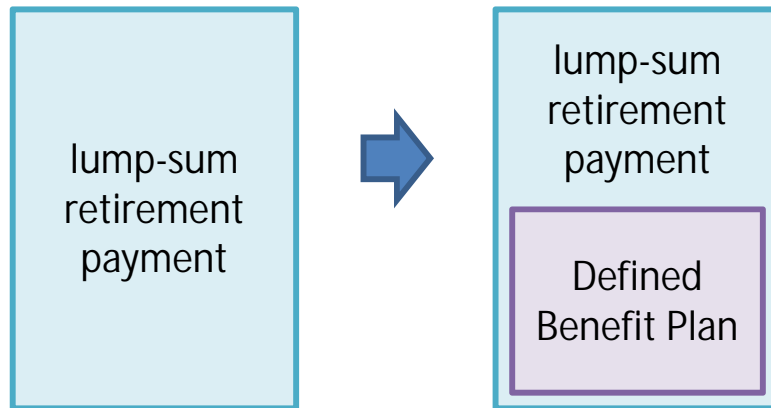
(Source: Ministry of Health, Labor and Welfare)

# 3.Private pension

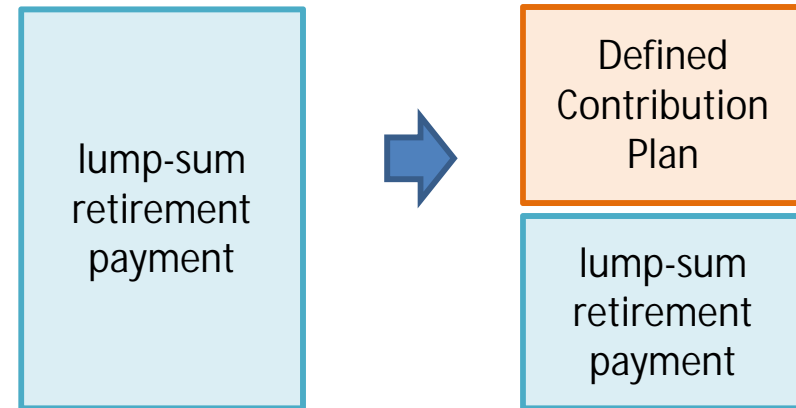
## (1) Position of corporate pension

- A characteristic of Japanese corporate pension is that the lump-sum retirement payment is the source of the corporate pension.

General DB design



General DC design



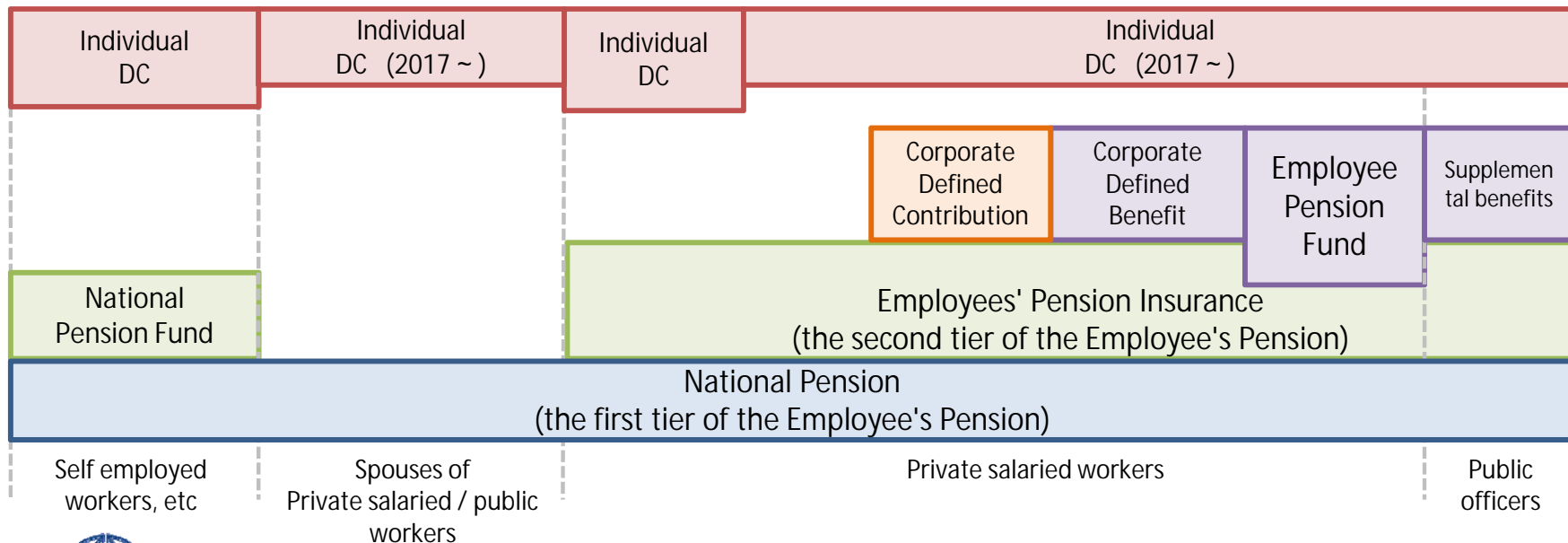


# 3.Private pension

## (1) Position of corporate pension

- Corporate pension plays a major role in income security for the elderly.
- Since 2017, the participation eligibility of individual-type DC has been expanded, and the portability between pension institutions has been expanded.

### Pension system in Japan



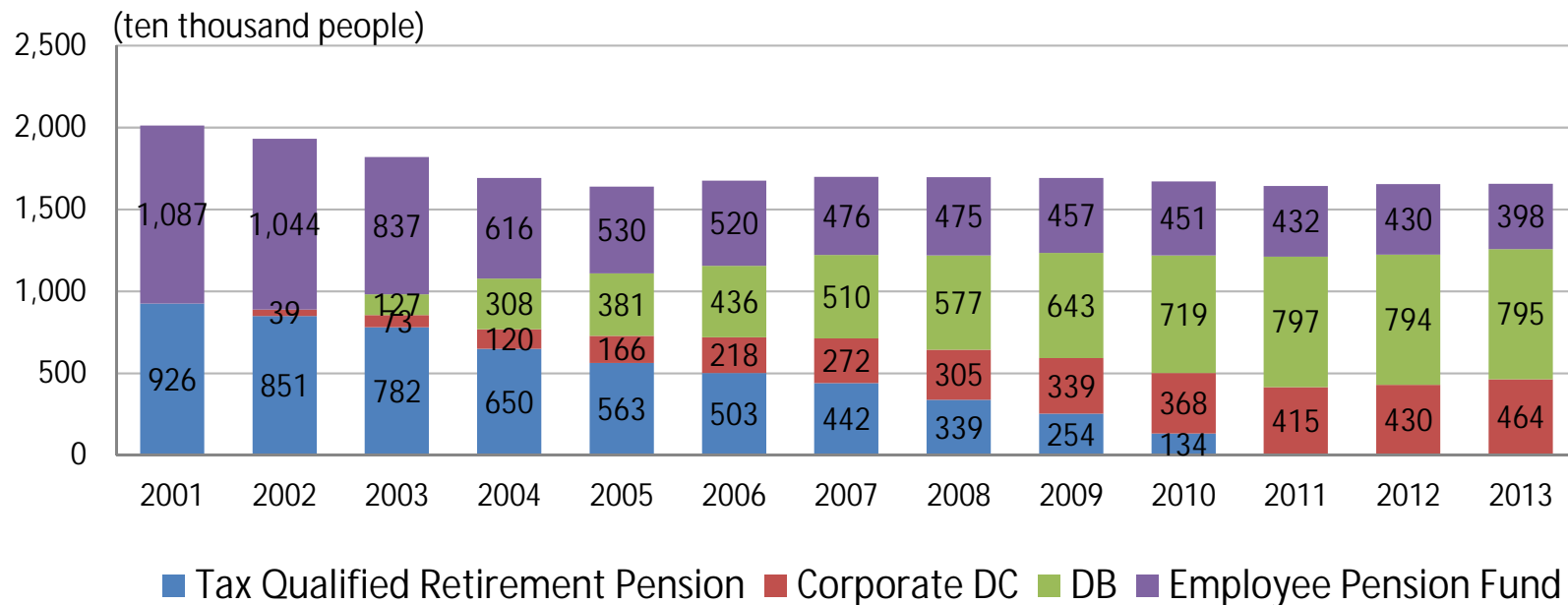
(Source: Ministry of Health, Labor and Welfare)

# 3. Private pension

## (2) Status of corporate pension

- The number of subscribers had been on a downward trend, but it has remained flat in recent years.

Number of corporate pension subscribers



(Source: Ministry of Health, Labor and Welfare)

# 3.Private pension

## (2) Status of corporate pension

- Although the coverage of corporate pension is low, the coverage of the retirement benefit plan is high.
- Many companies have secured certain levels of retirement benefits.

### Retirement benefit system coverage

	Companies with retirement benefit plans			No system	
	Lump-sum only	Pension only	Both systems		
total	75.5%	65.8%	11.6%	22.6%	24.5%
Over 1000 people	93.6%	23.0%	28.9%	48.1%	6.4%
300 ~ 999 people	89.4%	31.5%	27.2%	41.3%	10.6%
100 ~ 299 people	82.0%	56.0%	14.0%	30.0%	18.0%
30 ~ 99 people	72.0%	74.1%	8.6%	17.3%	28.0%

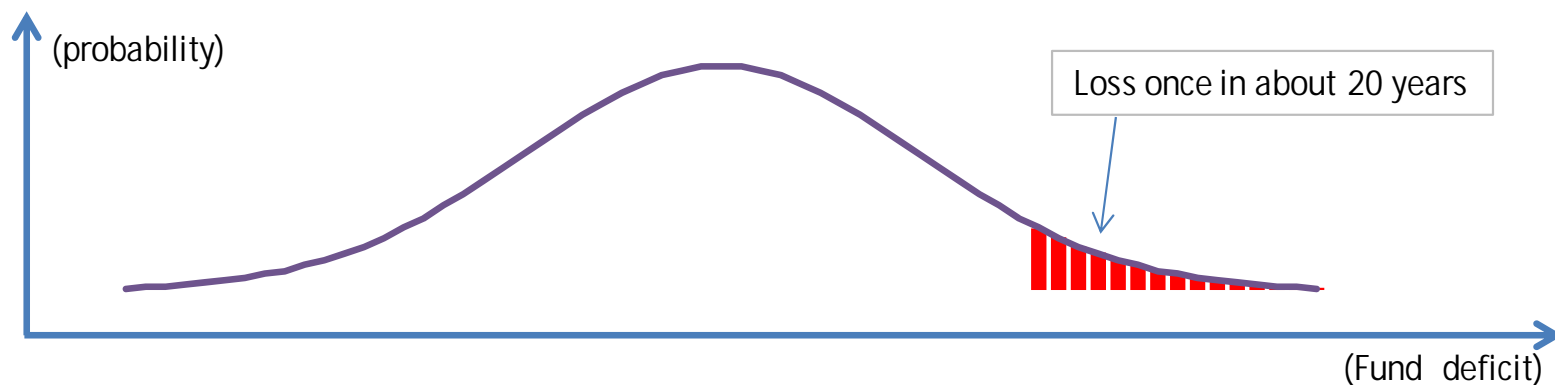


(Source: Ministry of Health, Labor and Welfare)

# 3.Private pension

## (3) 2016 pension legislative revision on DB

- The structure to allow for contribution of "risk-related premium" in advance has been introduced so that companies will not be required to make additional contributions in a recessionary period.
- Specifically, we first define "financial-deterioration risk" as a criterion that companies can withstand losses once in about 20 years. Next, we set a "risk-related premium" based on this level. This structure means that companies will make extra contributions.

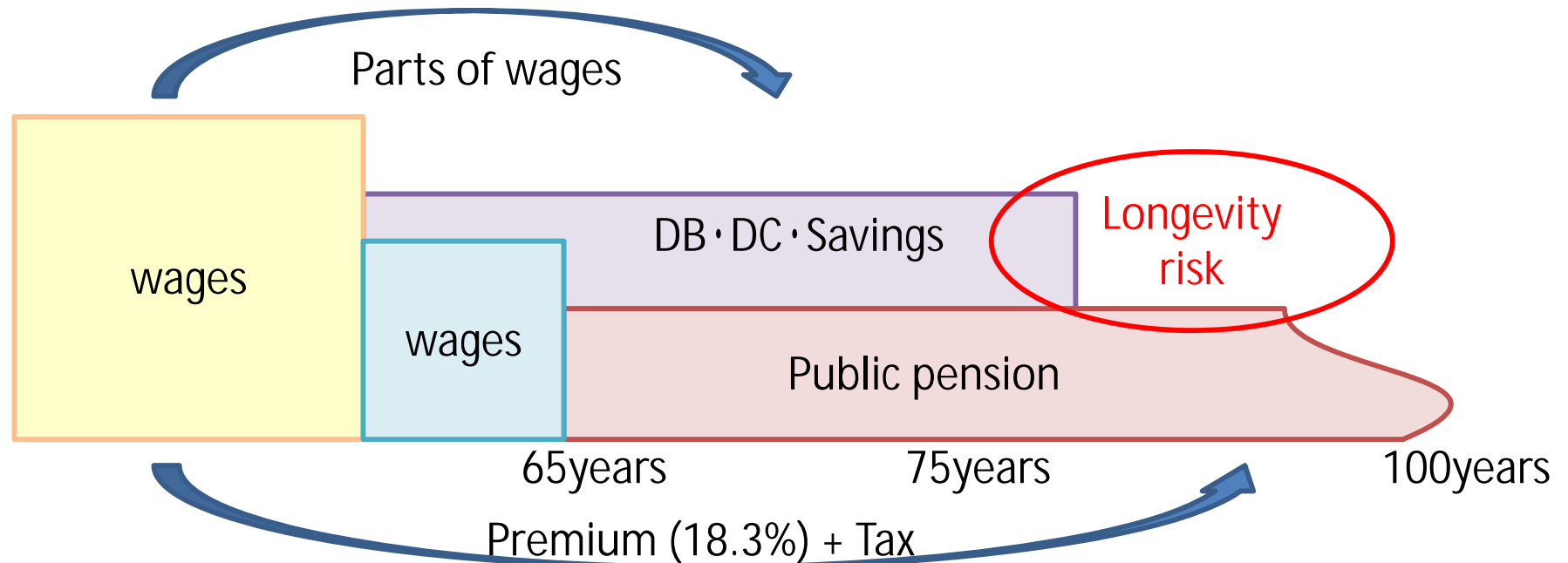


# 4. The way to achieve income security for the elderly

## (1) Income for the late elderly

- Conventionally, the roles of DB and DC are said to be an addition to income for the elderly.

Conventional role

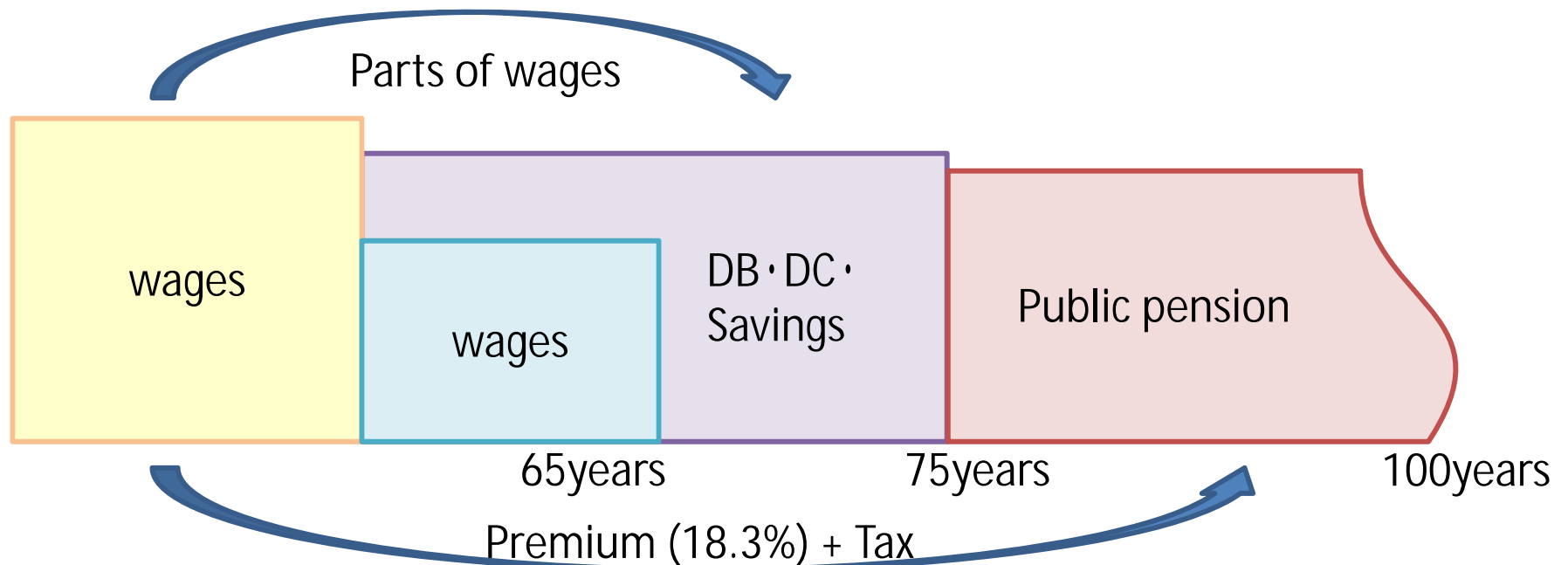


# 4. The way to achieve income security for the elderly

## (2) Income for the early elderly

- In the future, as the longevity risk increases, DB and DC should play a role of achieving income for the early elderly.

Future role



# 5. Conclusion

- The income for the late elderly (over 75 years old) should be covered with public pension and the income for the early elderly (65 to 75 years old) should be covered with wages and private pension.
- Specifically, for longevity risk it is effective to raise the upper pensionable age for public pension to 75 years old (annual amount increases according to the age). In addition, it is important to defer parts of wages by utilizing DB and DC to maintain income level in the early elderly.
- To that end, it will be necessary to better educate Japanese citizens about social security.
- The new structures are effective for mitigating investment risks in DB. However, in order for these structures to become popular, additional measures for refunding of pension assets to employers are required.





**THANK YOU FOR YOUR ATTENTION!**