

The employment situation of the elderly in Japan and a study on the role of corporate pension plan

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Abstract

Corporate pension plans generally depend on the employment situation of its country. The employment situation has been changing rapidly.

In those environments, it becomes more important to manage corporate pension plans flexibly, because it is supposed to play an important role in complementing public pension benefits and in achieving secure and adequate income at old age. This paper discusses the future role of corporate pension plan.

In this paper, using empirical data on the employment situation of the elderly and corporate pension plan, we analyze trends in large enterprises and small and medium enterprises. And we also show the discussions in the corporate pensions sectional meeting of the Social Security Council.

We found that large enterprises are not always well-prepared for the employment of the elderly, but that the coverage of corporate pension plans is wide. Small and medium enterprises are relatively better-prepared for the employment of the elderly, but the coverage of corporate pension plans is limited.

The following would be needed for corporate pension plans in the future. For large enterprises, corporate pension plans should be managed flexibly according to each employee's way of working and need. For small and medium enterprises, the government should promote the introduction of corporate pension plans as a safety net for the employees, or as a means of compensation for the retiree's insufficient public pension benefits.

Keywords

retirement age, employment situation, corporate pension plans

1. Introduction

(1) The mandatory retirement age system and the continuous employment system in Japan

Most of companies in Japan have introduced the mandatory retirement age system and the continuous employment system. The mandatory retirement age system is that the employment contracts are automatically terminated when employees reach a certain age (the mandatory retirement age). Note, however, that the definition of a mandatory retirement age system is different in each country. In the continuous employment system, employees who reach the mandatory retirement age and wish to continue working can be reemployed.

(2) The change of the mandatory retirement age

Since 1960s, the numbers of companies which institute the mandatory retirement age system have increased. In recent years, companies which adopt mandatory retirement age of 60 are the majority although companies which adopt mandatory retirement age of 65 have increased in number.

<Figure 1>

Year	companies which institute the mandatory retirement age	breakdown of the mandatory retirement age				
		55 or younger	56-59	60	61-64	65 or older
1968	51.2 %	(63.5) %	(14.2) %	(20.6) %	(0.0) %	(1.5) %
1971	51.1 %	(58.6) %	(18.3) %	(21.7) %	(0.3) %	(1.1) %
1974	43.8 %	(52.3) %	(12.3) %	(32.4) %	(0.4) %	(2.6) %
1976	52.4 %	(47.6) %	(15.9) %	(32.3) %	(0.3) %	(3.3) %
1978	55.1 %	(41.4) %	(19.4) %	(33.7) %	(0.4) %	(4.4) %
1980	60.0 %	(39.7) %	(20.1) %	(36.5) %	(0.7) %	(2.5) %
1981	48.6 %	(38.4) %	(18.0) %	(39.5) %	(0.9) %	(2.2) %
1982	65.4 %	(36.0) %	(18.2) %	(43.0) %	(0.8) %	(2.0) %
1983	68.5 %	(31.6) %	(19.0) %	(45.8) %	(1.0) %	(2.6) %
1984	69.3 %	(29.7) %	(18.3) %	(48.3) %	(1.3) %	(2.5) %
1985	70.3 %	(27.1) %	(17.4) %	(51.0) %	(2.1) %	(2.3) %
1986	73.0 %	(26.8) %	(16.6) %	(52.5) %	(2.3) %	(1.8) %
1987	80.4 %	(23.3) %	(18.0) %	(53.9) %	(2.3) %	(2.5) %
1988	79.6 %	(24.2) %	(17.1) %	(55.0) %	(1.4) %	(2.4) %
1989	82.3 %	(21.2) %	(17.0) %	(57.6) %	(1.1) %	(3.2) %
1990	81.8 %	(19.8) %	(16.2) %	(60.1) %	(1.1) %	(2.7) %
1991	86.7 %	(15.1) %	(14.0) %	(66.4) %	(1.2) %	(3.2) %
1992	88.1 %	(11.7) %	(11.7) %	(71.4) %	(1.7) %	(3.5) %
1993	84.9 %	(9.7) %	(10.3) %	(73.9) %	(1.6) %	(4.4) %
1994	87.7 %	(8.1) %	(7.8) %	(77.1) %	(2.0) %	(5.0) %
1995	88.9 %	(7.6) %	(6.6) %	(78.6) %	(1.7) %	(5.5) %
1996	89.9 %	(5.9) %	(5.8) %	(80.4) %	(1.7) %	(6.2) %
1997	90.7 %	(4.6) %	(5.2) %	(82.0) %	(1.5) %	(6.7) %
1998	86.5 %	(3.3) %	(3.4) %	(86.7) %	(1.4) %	(5.1) %
1999	87.5 %	(0.5) %	(0.4) %	(91.2) %	(1.8) %	(6.2) %
2000	89.4 %	(0.6) %	(0.2) %	(91.6) %	(1.8) %	(5.7) %
2001	88.1 %	(0.5) %	(0.5) %	(90.6) %	(1.6) %	(6.8) %
			59 or younger	60	61-64	65 or older
2002	87.9 %	-	(0.6) %	(90.3) %	(2.3) %	(6.8) %
2003	89.9 %	-	(1.1) %	(89.2) %	(2.7) %	(6.9) %
2004	88.6 %	-	(0.7) %	(90.5) %	(2.4) %	(6.5) %
2005	93.0 %	-	-	(90.5) %	(2.5) %	(6.2) %
2006	93.5 %	-	-	(91.1) %	(3.1) %	(6.4) %
2007	91.7 %	-	-	(86.6) %	(4.2) %	(9.0) %
2008	92.9 %	-	-	(85.2) %	(3.9) %	(10.8) %
2009	90.4 %	-	-	(82.4) %	(4.1) %	(13.4) %
2010	91.9 %	-	-	(82.7) %	(4.0) %	(13.3) %
2011	91.9 %	-	-	(82.2) %	(3.7) %	(14.0) %
2012	91.1 %	-	-	(82.7) %	(2.7) %	(14.6) %
2013	91.8 %	-	-	(83.0) %	(3.0) %	(14.0) %
2014	92.8 %	-	-	(81.8) %	(2.6) %	(15.6) %

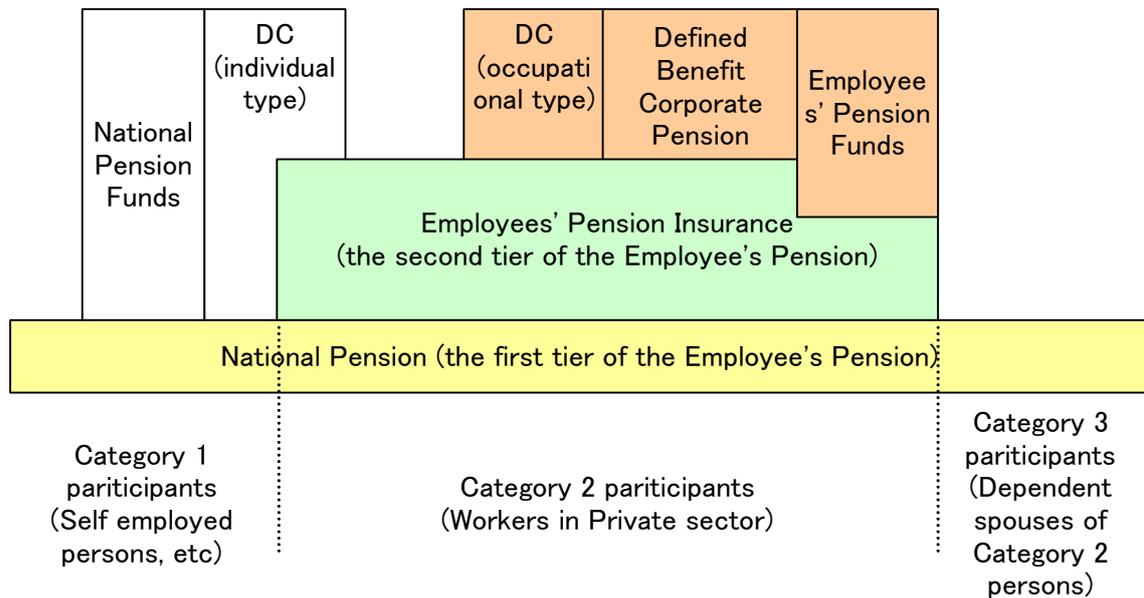
Source: "Working condition general investigation"
Ministry of Health, Labour and Welfare's

(3) Pension system in Japan

Japanese pension systems consist of 3-tier benefits. The first tier (flat benefit to all Japanese) and the second tier (earnings-related benefit to salaried employees) are both public pension systems. And the third tier is private corporate pension plans. For public pension benefits, funding scheme, "Pay as you go" is basically adopted; a premium that an active participants pay is used for the present retirees pension benefits.

To adapt to the problems currently occurred in economic environment, declining birthrate and aging society, slimming down of the public pension benefit is in execution. In concrete, delaying pensionable age gradually from 60 to 65, reducing Income substitution rate by the adjustment of pension benefit in the method called "Macroeconomics slide" are adopted.

<Figure 2>



Source: Ministry of Health, Labour and Welfare's website

(4) The mandatory retirement age and the starting age for the Employees' Pension

The mandatory retirement age and the pensionable age for the Employees' Pension have been raised slowly until today from the 1950s. In the period of rapid economic growth, most of companies instituted the mandatory retirement age of 55. In 1973, in order to respond to changes in the demographic and economic environment, a political goal of the mandatory retirement age of 60 has been raised. Over a period of about 20 years, the government has implemented the policy to raise the mandatory retirement age from 55 to 60. Since 1994, the mandatory retirement age must be 60 or more. In 2000, a political goal of the mandatory retirement age to 65 was raised. From this time, the gradual raising the pensionable age for the Employees' Pension from 60 to 65 began.

In accordance with the Revised Law Concerning Stabilization of Employment of Older Persons enforced in April 2013, companies are obligated to comply with any one of the following aspects:

- Introduction of a continuous employment system
- Raising the mandatory retirement age
- Abolition of the mandatory retirement age system

Initially, the pensionable age for the Employees' Pension was 55. In 1974, in order to respond to demographic and economic changes, the pensionable age for man became 60. In 2000 (the mandatory retirement age 60 or more had been already obligated), also the pensionable age for woman became 60. The pensionable age for the first tier (for man) has been raised one by one every three years from 2001 (in the case of woman from 2006). The pensionable age for the second tier (for man) has been raised one by one every three years from 2013 (in the case of woman from 2018).

Although the pensionable age for the Employees' Pension is rising to 2025 (in the case of woman to 2030), there is a secure employment environment until 65 as described above.

<Figure 3>

	the mandatory retirement age	the pensionable age for the Employees' Pension (the first tier)		the pensionable age for the Employees' Pension (the second tier)	
		for man	for woman	for man	for woman
1960s	55 is the most	55~58	55	55~58	55
1973		59	55	59	55
1974		60	55	60	55
1986	60 (the effort obligation)	60	55	60	55
1998	60 (the obligation)	60	58	60	58
2000	65 (the effort obligation), the exemption exists	60	60	60	60
2006	65 (the obligation), the exemption exists	62	61	60	60
2013	65 (the obligation)	65	63	61	60
2015		65	64	61	60

※ In accordance with the Revised Law Concerning Stabilization of Employment of Older Persons enforced in April 2013, companies are obligated to comply with any one of the following aspects:

- Introduction of a continuous employment system
- Raising the mandatory retirement age
- Abolition of the mandatory retirement age system

Source: Ministry of Health, Labour and Welfare's website

(5) Revisions of corporate pension plans in raising the mandatory retirement age

When the mandatory retirement age was raised to 60 from 55, how companies revised wage systems and corporate pension plans, it is shown in the following. In 1968 the ratio of companies where the mandatory retirement age was 55 or younger was more than 60%. Because the Cabinet decided the second employment measures basic plan in 1973 and promoted raising the mandatory retirement age, in 1984 the ratio of companies where the mandatory retirement age was 60 or older was more than 50%. In the law revision about the mandatory retirement age, rapid aging, and changes of social economic environment, both labor and management began to recognize a need of the employment environment modification. And Companies raised the mandatory retirement age, and revised wage systems, retirement benefit plans, and corporate pension plans.

In 1975 the ratio of companies having tax-qualified pension plans was 83%, and the ratio of companies having Employees' Pension Funds was 5%. In particular for large companies, the ratio of companies having Employees' Pension Funds was 39%. In the 1990s, many companies reviewed their retirement benefit plans to control burdens by raising the mandatory retirement age. For example, as follows:

- fixing amount of retirement benefit at 55
- revision of the benefit design
- revision of the beneficiary period and the interest rate on the beneficiary period

It seems that similar revisions of wage systems, retirement benefit plans, and corporate pension plans are executed when raising the mandatory retirement age from 60 to 65.

2. Current status of the employment situation of the elderly and corporate pension plan

(1) Employment Security Measures (by company size)

There are three measures for securing employment for elderly persons:

- Introduction of a continuous employment system
- Raising the mandatory retirement age
- Abolition of the mandatory retirement age system

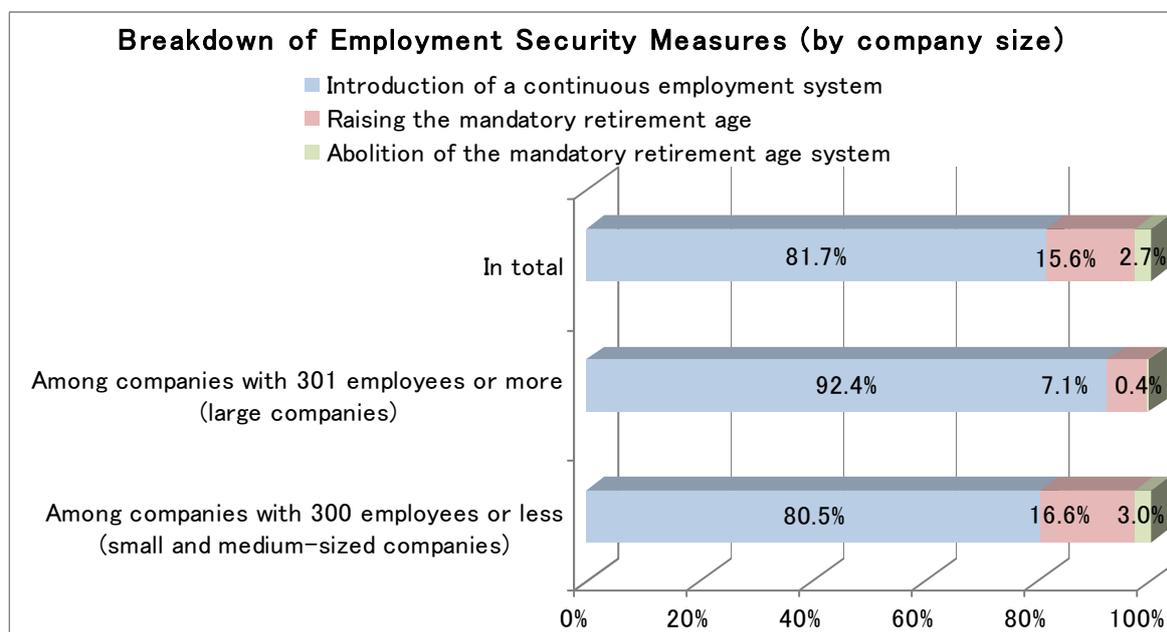
In total, 81.7% of companies have introduced the continuous employment system. Companies that have raised the mandatory retirement age are not so many. In addition, few companies have abolished the mandatory retirement age system.

Among companies with 301 employees or more (large companies), 92.4% of companies have introduced the continuous employment system, and it shows that the system is a common for Employment Security Measure. 7.1% of companies have raised the mandatory retirement age, and 0.4% of companies have abolished the mandatory retirement age system.

The reason for the continuous employment system being widely adopted is that companies can revise the employment conditions (salary cuts, job changes) when rehiring easily. Also, because lifestyles after age of 60 are diversifying, some employees wish to reduce a burden of work. It is easy to obtain an agreement with employees compared with the raising the mandatory retirement age.

On the other hand, among companies with 300 employees or less (small and medium-sized companies), 80.5% of companies have introduced the continuous employment system. 16.6% of companies have raised the mandatory retirement age, and 3.0% of companies have abolished the mandatory retirement age system. It shows that the ratio of “Raising the mandatory retirement age” and “Abolition of the mandatory retirement age system” is higher than large companies.

<Figure 4>



Source: “The employment situation of the elderly (2014)”
Ministry of Health, Labour and Welfare's

(2) Breakdown of continuous employment systems (by company size)

There are two measures for continuous employment systems.

- (measure A) Employees who wish to continue working can work up to age of 65 or older
- (measure B) Employees who wish to continue working and meet requirements of the labor-management agreement can work up to age of 65 or older

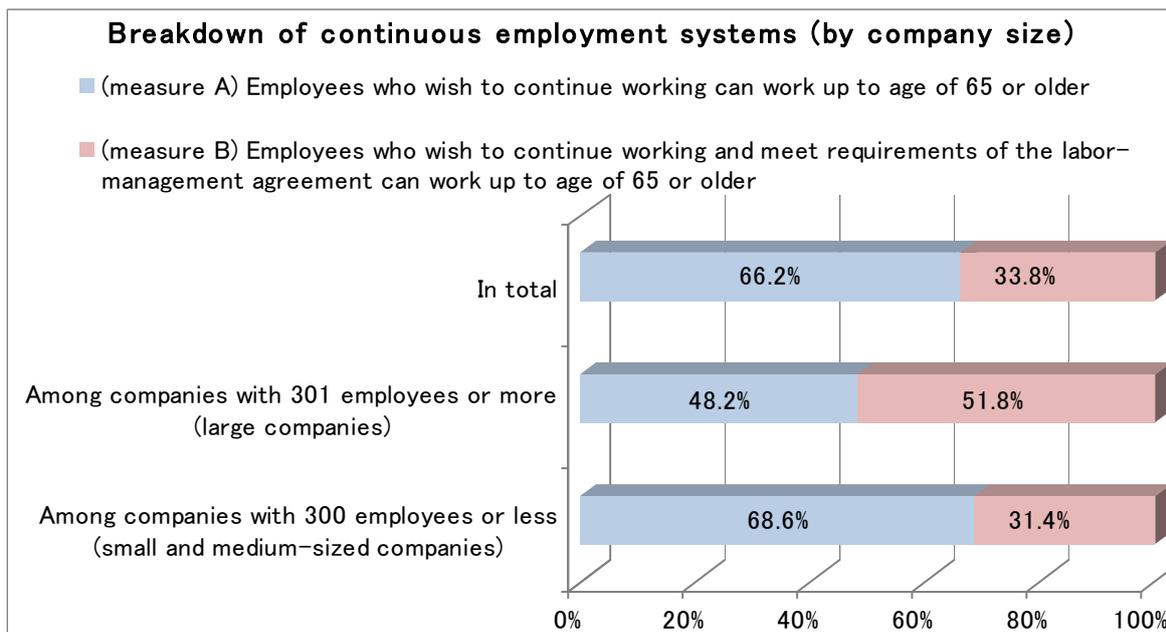
Companies which have introduced the continuous employment system, 66.2% of them have introduced measure A. 33.8% of companies have introduced measure B, and it can be seen that companies providing the requirements are not less.

Among large companies, 48.2% of them have introduced measure A. 51.8% have introduced measure B, and the ratio is almost the same. On the other hand, among small and medium-sized companies, 68.6% of them have

introduced measure A. 31.4% have introduced measure B, and the ratio of measure A is higher than the ratio of measure B.

It shows that employees can easily continue working in comparison with large companies.

<Figure 5>



Source: “The employment situation of the elderly (2014)”
Ministry of Health, Labour and Welfare's

(3) Breakdown of companies where employees can work up to age of 65 or more (by company size)

In total, 71% of companies are prepared for the environment that employees can work up to age of 65 or more. The 53.1% of them have introduced the continuous employment system, and the 15.3% have raised the mandatory retirement age, and the 15.3% have abolished the mandatory retirement age system.

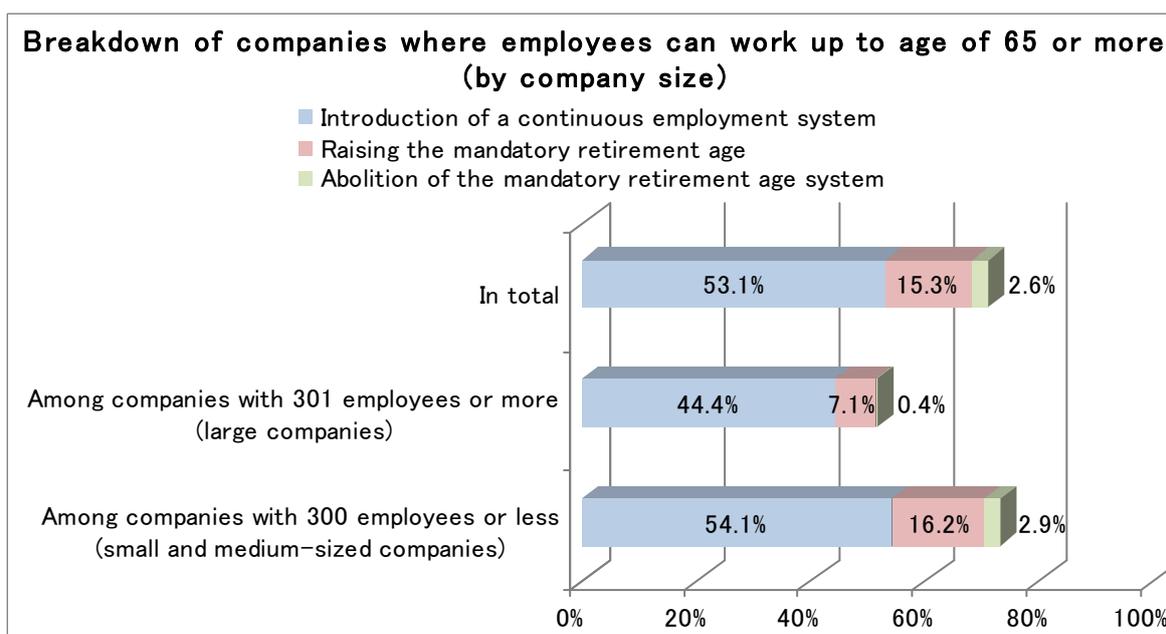
Among large companies, 51.9% of them are prepared for the environment that employees can work up to age of 65 or more. Although increased significantly by law amendment, it is only about 50%. It shows that large

companies are not well prepared, and it seems that it is an issue for large companies.

On the other hand among small and medium-sized companies, 73.2% of them are prepared for the environment that employees can work up to age of 65 or more. It seems that small and medium-sized companies are active in the introduction for securing human resources.

From the above, the employment situation of the elderly in large companies and small and medium-sized companies are different. Small and medium companies positively create an environment for the employment of the elderly in comparison with large companies.

<Figure 6>



Source: “The employment situation of the elderly (2014)”
Ministry of Health, Labour and Welfare's

(4) Trends of employees who reached the mandatory retirement age of 60

Whether employees have chosen to work continuously, it is shown in the following.

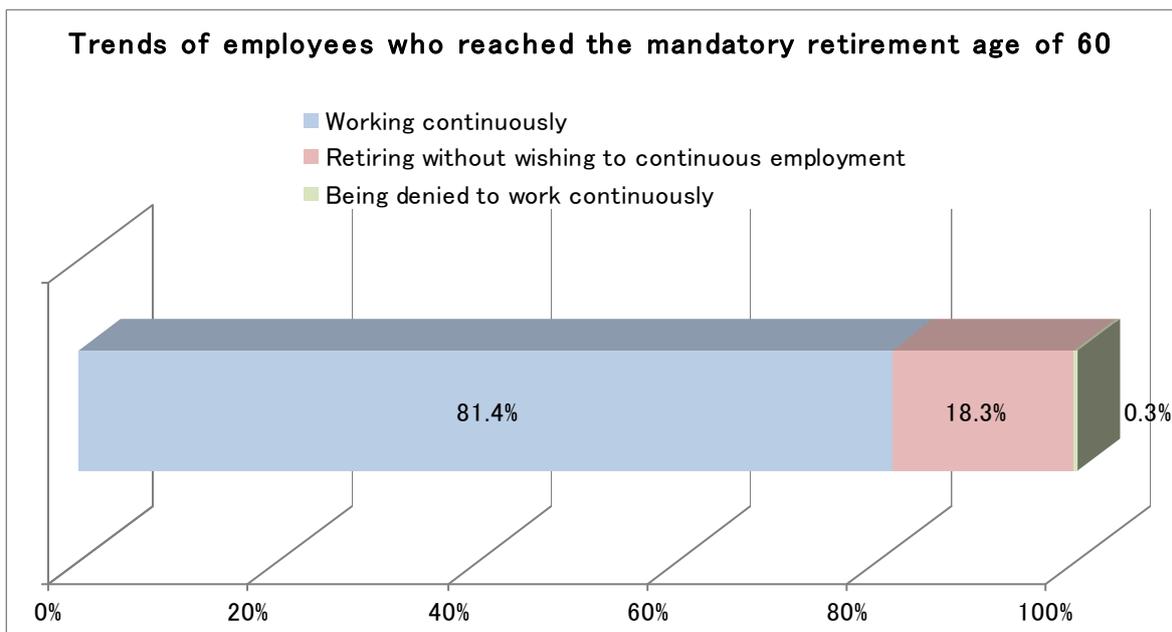
In the companies where the mandatory retirement age is 60, 81.4% of

60-year old employees have chosen to work continuously. It seems that there are many employees for economic reasons in view of the starting age of the public pension. Also, when using the continuous employment, because often the job is reviewed, it is possible to work by reducing a burden of work.

18.3% of 60-year old employees have retired without wishing to continuous employment. It seems that employees are not satisfied with the review of the job and choose to work in another company. In addition, it is possible to advance the receiving public pension. It is rare that employees wishing to continuous employment are denied to work continuously.

It seems that a variety of life style expands choices of age to start a retirement life.

<Figure 7>



Source: “The employment situation of the elderly (2014)”
Ministry of Health, Labour and Welfare's

(5) Payment starting age (by corporate pension type)

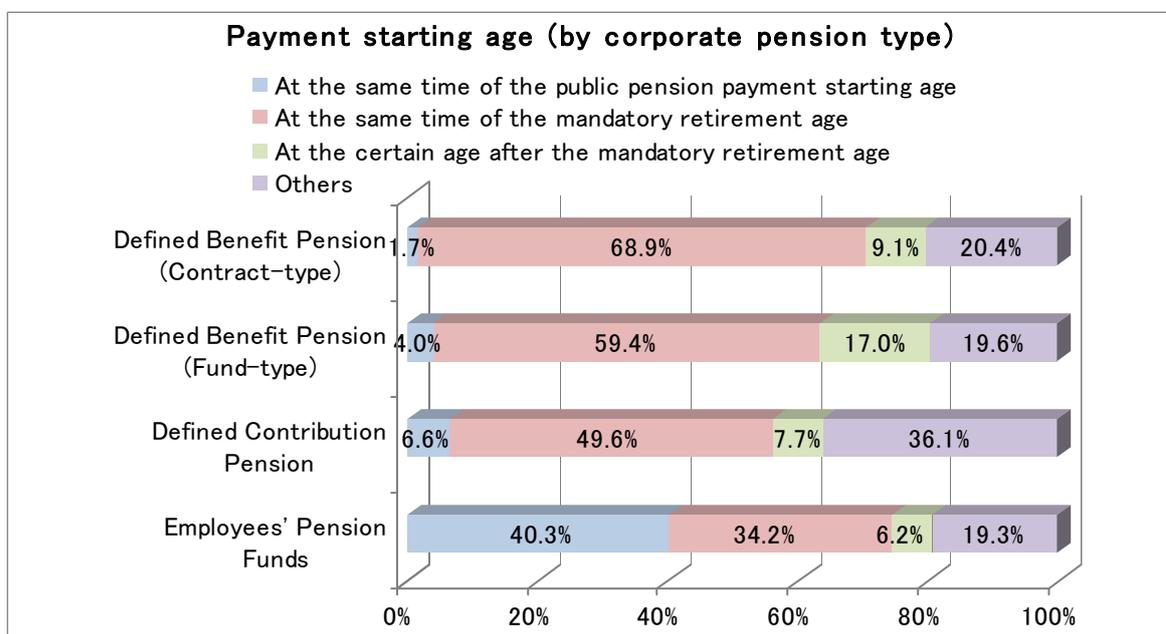
For the elderly, the mandatory retirement age (age when wage income is lost) and the payment starting age of the corporate pension (age when

pension income begins) are significant for their lifestyles. As mentioned, the starting age of the public pension has been raised. What about the starting age of the company pension, it is shown in the following.

68.9% of Defined Benefit Corporate Pensions (contract-type), 59.4% of defined Benefit Corporate Pensions (fund-type), and 49.6% of Defined Contribution Pensions (company type) set the starting age to the mandatory retirement age (60-year old). It is the most common. Benefit designs of the corporate pensions are generally based on the mandatory retirement age. In addition, the government decided to shrink the role of Employees' Pension Fund. (To be described later)

It shows that almost corporate pension plans have not been reviewed. Because companies do not necessarily have to review corporate pension plans if they have introduced the continuous employment system which does not change the mandatory retirement age.

<Figure 8>



Source: "Private enterprise retirement benefits investigation (2012)"
National Personnel Authority

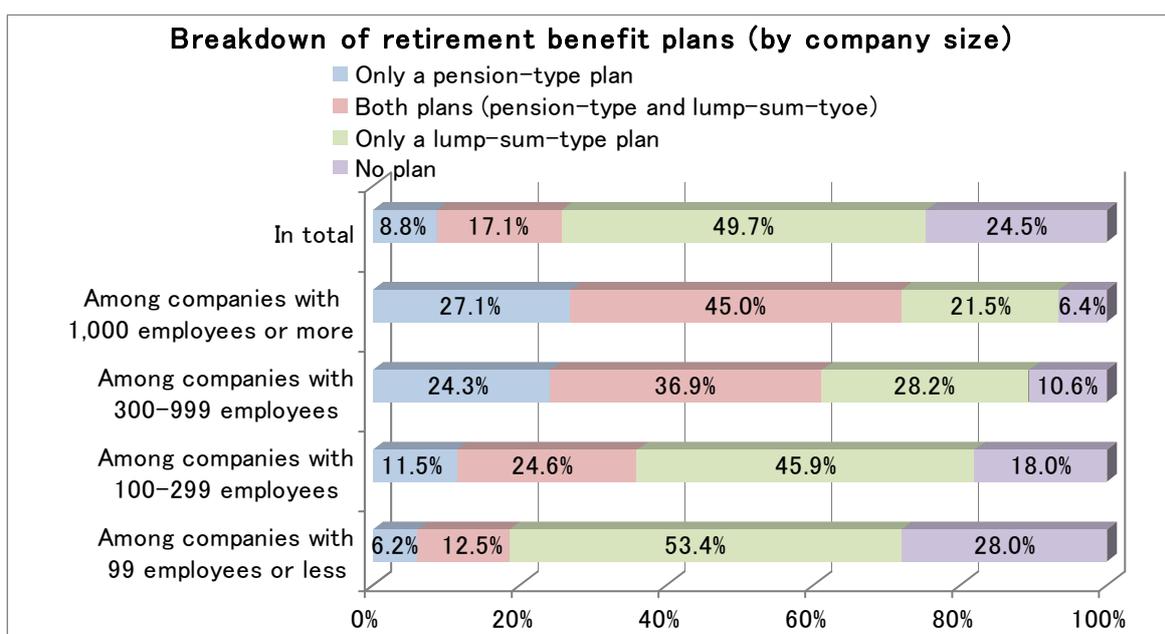
(6) Breakdown of retirement benefit plans (by company size)

For retirees, the retirement benefit plan (the corporate pension plan) is significant for their lifestyles after retirement. How much of the companies have the retirement benefit plan (the corporate pension plan), it is shown in the following.

Among companies with 1,000 employees or more, 72.1% of them have a pension-type plan, 45.0% of them also have a lump-sum-type plan. In addition, 6.4% of them have no plan. Among companies with 300-999 employees, 61.2% of them have a pension-type plan. As company size becomes smaller, the coverage of the pension is more limited. Among companies with 100-299 employees, 18.7% of them have a pension-type plan. Many companies have a lump-sum-type plan. In addition, 28.0% of them have no plan.

Among large companies, the coverage of corporate pension plans is wide. Among small and medium-sized companies, the coverage of corporate pension plans is limited. It seems that there is a big difference to the situation of retirement benefit plans by company size.

<Figure 9>



Source: "Working condition general investigation (2013)"
Ministry of Health, Labour and Welfare's

(7) Differences of large companies and small and medium-sized companies

About the employment situation of the elderly and the retirement benefit plan (the corporate pension plan), for large companies and small and medium-sized companies there are differences as follows.

For large companies,

- Most companies introduce the continuous employment system.
- In the continuous employment system, all employees hoping for the continuous employment are not necessarily employed.
- The coverage of corporate pension plans is wide.

For small and medium companies,

- Most companies introduce the continuous employment system, and some companies raise the mandatory retirement age.
- Small and medium companies are relatively better-prepared for the employment of the elderly in comparison with large companies.
- The coverage of corporate pension plans is limited.
- Some companies do not have the retirement benefits system.

3. The role of corporate pension plan for large companies

(1) Current status and issues

Although the starting age for the Employees' Pension is rising, the continuity of the starting age for the retirement life and the starting age for the Employees' Pension is almost kept by using the continuous employment system. (The period when an income is zero does not exist.) However, incomes decrease from the mandatory retirement age (60) to the starting age for the Employees' Pension. With the reduction of the public pension, corporate pension plans become important to not only the role as the additional pension of the public pension but also the role as the early pension until the starting age for the Employees' Pension. It is demanded that each company arranges the role of corporate pension plan and rebuilds the retirement benefits system.

It is said that the role of the retirement benefits system and corporate pension plan is enlarged by the diversification of the employment situation of the elderly and the starting age for the retirement life. Corporate pension plans should be managed flexibly according to each employee's way of working and need.

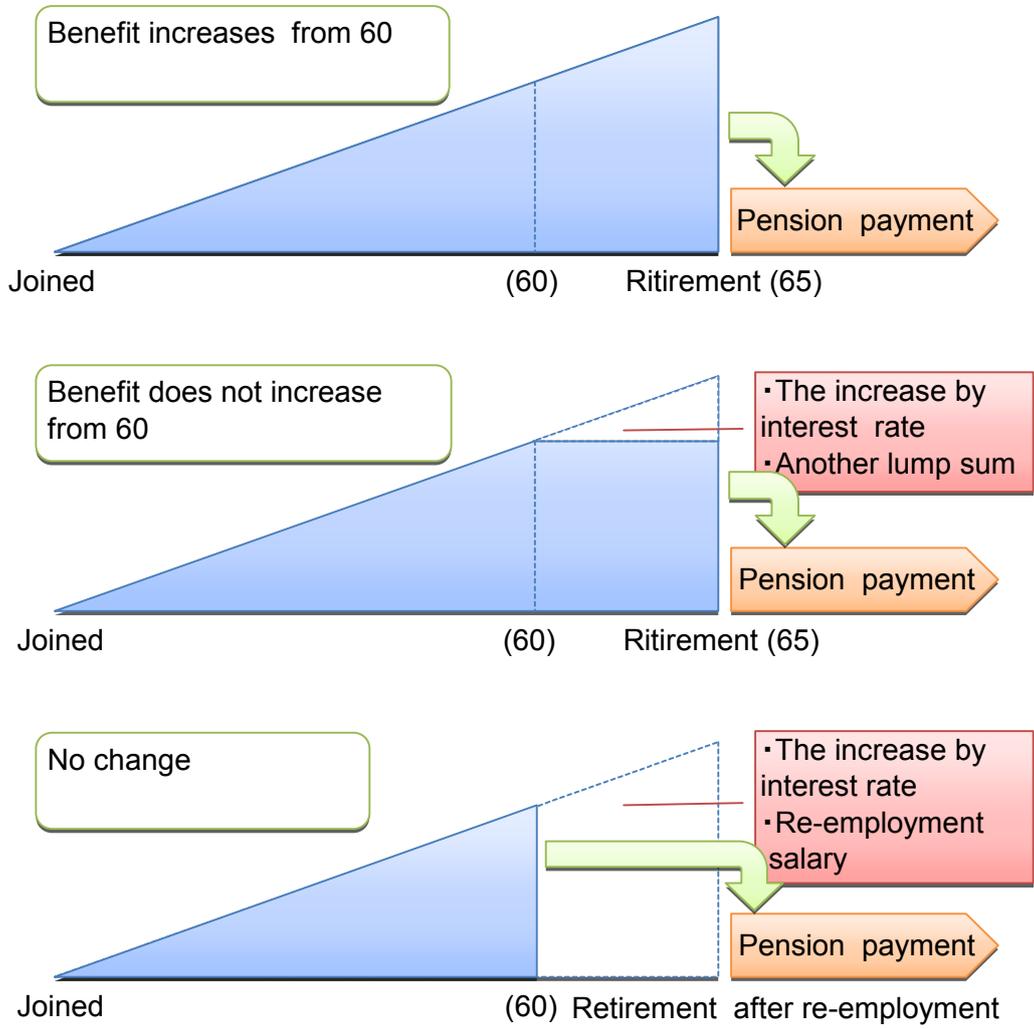
(2) Review example of benefit design

The example reviewing benefit design of corporate pension plans when raising the mandatory retirement age is shown in the following.

At first the method to increase the amount of payment until the new mandatory retirement age (65) is thought about. In this case a burden is big for a management. Therefore the adjustment of the benefit curve is more likely to be executed at the same time. On the other hand, the method to fix the amount of payment at the old mandatory retirement age (60) and allow choosing the starting age of corporate pension (from 60 to 65) is thought about, too.

In this case a burden is few for a management. It is thought about giving interest after 60 or paying a lump sum separately.

<Figure 10>



(3) The discussions in the corporate pensions sectional meeting of the Social Security Council

Large companies can make environment that employees can choose the employment, the wage, and the pension depending on the lifestyle. Corporate pension plans should be managed flexibly according to each employee's way of working and need.

In the discussions in the corporate pensions sectional meeting of the Social Security Council, the directionality of the following review is shown as the action for large companies.

- The government should relax the benefit design restriction of the corporate pensions.
- The government should relax the participation restriction of Defined Contribution Pension (individual type).
- The government should improve the portability of pension assets.
- The government should improve the investment performance of Defined Contribution Pension.
- Companies should ensure the governance of corporate pensions

4. The role of corporate pension plan for small and medium companies

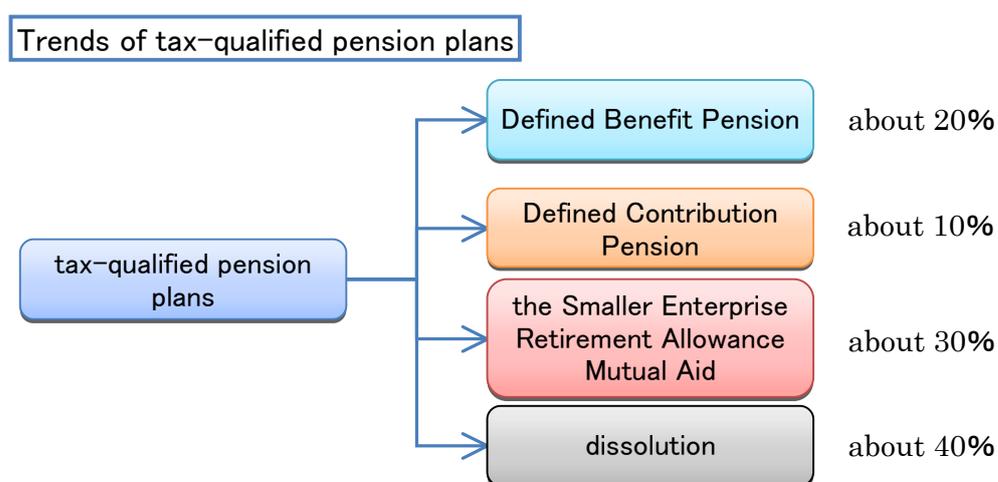
(1) Trends of tax-qualified pension plans

Once many small and medium companies had tax-qualified pension plans. 2002, it was decided to abolish tax-qualified pension plans in 2012 because of the changes in the socioeconomic circumstances. Companies had to shift tax-qualified pension plans to Defined Benefit Corporate Pension, Defined Contribution Pension, or the Smaller Enterprise Retirement Allowance Mutual Aid.

20% of them were shifted to Defined Benefit Corporate Pension, 10% of them were shifted to Defined Contribution Pension, and 30% of them were shifted to the Smaller Enterprise Retirement Allowance Mutual Aid. 40% of them were dissolved. It was seen that the coverage of corporate pension plans was more limited.

It was difficult to shift tax-qualified pension plans to Defined Benefit Corporate Pension or Defined Contribution Pension because of differences in regulations of benefits design and funding. In addition, many companies have dissolved tax-qualified pension plans due to deterioration of the financial condition.

<Figure 11>

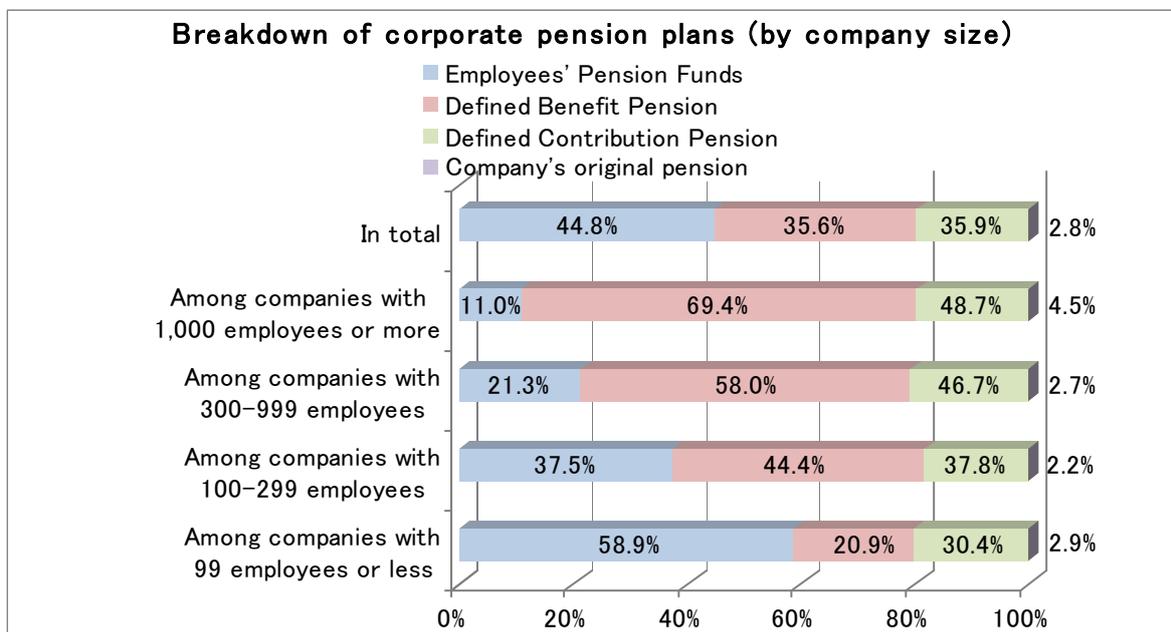


Source: "Trends of tax-qualified pension plans (2012)"
Ministry of Health, Labour and Welfare's

(2) Coverage of Employees' Pension Funds

In total companies which have introduced corporate pension plan, 44.8% of them have introduced Employees' Pension Funds. As company size becomes smaller, the ratio of Employees' Pension Funds is higher.

<Figure 12>



Source: "Working condition general investigation (2013)"
Ministry of Health, Labour and Welfare's

(3) Shrinking the role of Employees' Pension Funds

June 19, 2013, the government decided reduction of Employees' Pension Funds by law revision. Specifically, it is as follows:

- After April, 2014, the government does not allow a new establishment.
- The government prompts the dissolution by special measures of five years.
- After April 1, 2019, the Minister of Health, Labour and Welfare is possible to dissolve Employees' Pension Funds that do not satisfy the

criteria.

- The government supports the shift to other retirement benefit plans.

Among small and medium companies, the weight of Employees' Pension Funds is high. In view of the recent severe financial situation, companies that shift to other pension plans are limited. Many more small and medium companies are expected to have no pension plan.

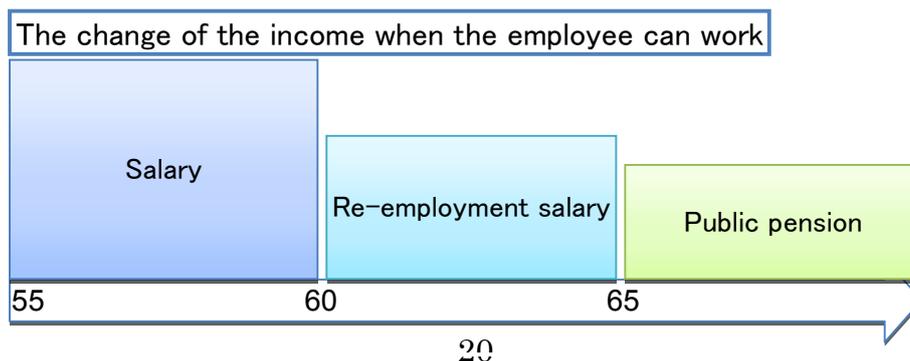
In such the situation, incentives are necessary in order to expand the coverage of corporate pension plans. It is desirable to consider incentives for employers not only for employees.

(4) The discussions in the corporate pensions sectional meeting of the Social Security Council

Small and medium companies are relatively better-prepared for the employment of the elderly in comparison with large companies. Furthermore, in some cases it is possible to continue to work more than 65. Employees can choose whether to work in accordance with the individual's lifestyle. It is not necessarily everyone can work. For example, some may not be able to work because of the health of themselves and their family. In such a case, it is possible to earn income by receiving advance of public pension. However, public pension is shrinking.

Corporate pension plans are now also expected the important role of welfare. In addition, when it becomes difficult to work for some reason, corporate pension plans are more expected the important role of a safety net.

<Figure 13>



In the discussions in the corporate pensions sectional meeting of the Social Security Council, the directionality of the following review is shown as the action for small and medium companies.

- The government should relax the notification and procedures for further dissemination of Defined Benefit Corporate Pension and Defined Contribution Pension.
- The government should admit the co-founding of Defined Contribution Pension by utilizing the Pension Fund Association and Chamber of Commerce and Industry to reduce the burden of investment education.
- The government should give tax-incentives for Defined Contribution Pension (individual type) to employees in small and medium companies that cannot have corporate pension plans.

5. Results and Conclusions

For large companies, results and conclusions are as follows:

- Most companies have introduced the continuous employment system.
- In the continuous employment system, all employees who wish to continue working are not necessarily employed.
- The coverage of corporate pension plans is wide.
- Corporate pension plans should be managed flexibly according to each employee's way of working and need.

For small and medium companies, results and conclusions are as follows:

- Most companies have introduced the continuous employment system, and some companies raise the mandatory retirement age.
- Small and medium companies are relatively better-prepared for the employment of the elderly in comparison with large companies.
- The coverage of corporate pension plans is limited.
- Some companies do not have the retirement benefit system.
- The government should promote the introduction of corporate pension plans as a safety net for the employees, or as a means of compensation for the retiree's insufficient public pension benefits.