OECD-ABDI Roundtable
June 22–23, 2016
Tokyo, Japan
Yas Fujii, Chair of Pensions and Employee Benefits Committee of the International Actuarial Association
International Actuarial Association (IAA)
Introduction

- Founded in 1895 as continuation of the Comité Permanent des Congrès d’Actuaires
- Renamed IAA in 1968
- Restructured in 1998
- Based in Ottawa, Canada – constituted in Switzerland
- Unique international organization dedicated to the research, education and development of the profession and of actuarial associations.
About the IAA

Worldwide association of professional actuarial associations
- 68 FMAs*
- 30 AMAs*
- representing 63,000+ actuaries in 112+ countries

7 special interest Sections for individuals:
- AFIR-ERM
- ASTIN
- AWB
- IAAHS
- IACA
- Life
- PBSS
- 5000+ Section members

800+ volunteer actuaries
- Council and committees meet twice a year
- Sections host colloquia
- International Congress of Actuaries every 4 years.
- 300+ conference calls annually

Constituted in Switzerland
- based in Canada
- 11 staff

Exists to encourage the development of a global profession
-Acknowledged as technically competent and professionally reliable
-To ensure the public interest is served

*FMAs: Full Member Associations; AMAs: Associate Member Associations
Map of the IAA in 2016

- Full Members
- Associate Members
- Non-member Association
- Actuaries, No Association
Vision

The actuarial profession is:

➢ Recognized worldwide as a major player in the decision-making process within the financial services industry
  • in the area of social protection and in the management of risk

➢ Contributing to the well-being of society as a whole.
Mission

➢ To represent the actuarial profession and promote its role, reputation and recognition in the international domain

➢ To promote professionalism, develop education standards and encourage research, with the active involvement of its member associations and Sections, in order to address changing needs
Strategic Plan - Six strategic objectives

1. Relationships with key supranational audiences
2. Expansion of scientific knowledge to wider fields to enhance the scope, quality, and availability of actuarial services
3. Establish, maintain and promote common standards of actuarial education and principles of professional conduct for actuarial practice, promote development and issuance of actuarial standards in jurisdictions of Full Member associations, and the global convergence of actuarial standards
4. Support the development, organization, and promotion of the actuarial profession
5. Provide a forum for discussion
6. Improve recognition of the actuarial profession (branding)
Principle of Subsidiarity

Article 8 — Co-operation

The IAA:

- Restricts its activities to strategies and programmes which require international co-ordination or direction
- Only becomes involved with actions at level of the member associations or regional groups of actuarial associations at the express invitation of such an association or group
Pensions and Employee Benefits Committee

- Chair: Yas Fujii (Japan)
- Co-vice-chairs: Jason Malone (Canada), Philip Shier (Ireland)
- 40 delegate members + 32 interested actuaries
- Subcommittees
  - Pensions and Benefits Accounting Subcommittee
  - OECD-Subcommittee
- Activities includes coordinating input to supranational organizations (e.g. OECD).
Retirement Provision in Japan
RESIDENTS IN JAPAN

RETIREDMENT PROVISION

I  PUBLIC

- National Pension (Basic Pension)
- Employees’ Pension Insurance

II  OCCUPATIONAL

- Qualified DB Pension
- Qualified DC Pension (company type)
- DB Lump-Sum Allowance
- Employees’ Pension Fund
- ..... 

III  INDIVIDUAL

- Savings (NISA)
- House
- Annuity Insurance
- Qualified DC Pension (individual type)
- National Pension Fund
- Family Support
- ..... 

YF’s View & Summary
Households receiving public pension

Public pension’s share in total net income is 100%

2014 random sample survey

Source: Ministry of HLW of Japan
Translation: YF

Households including 65+ old

- Single: 25.3%
- Married couple only: 30.7%
- Parent(s) and Unmarried child(ren): 20.1%
- Three generations: 13.2%
- Other: 10.7%

2,357K
### Income sources of the aged
(two or more person households)
2015 random sample survey

(Multiple choices up to 3 items)

<table>
<thead>
<tr>
<th>Source of Income</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
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<tr>
<td>Work</td>
<td>43.2</td>
<td>42.3</td>
<td>41.3</td>
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<tr>
<td>Public pension</td>
<td>78.4</td>
<td>80.6</td>
<td>79.6</td>
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<td>Pension (occupational, individual), insurance</td>
<td>37.9</td>
<td>38.7</td>
<td>38.7</td>
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<tr>
<td>Withdrawals of financial assets</td>
<td>27.1</td>
<td>26.9</td>
<td>27.9</td>
</tr>
<tr>
<td>Interest, dividends</td>
<td>2.4</td>
<td>2.8</td>
<td>3.1</td>
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<td>house rent, land rent</td>
<td>5.6</td>
<td>4.8</td>
<td>5.4</td>
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<td>Family support</td>
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<td>3.6</td>
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<tr>
<td>Public support</td>
<td>-</td>
<td>4.6</td>
<td>5.0</td>
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<tr>
<td>Others</td>
<td>4.9</td>
<td>3.8</td>
<td>4.2</td>
</tr>
</tbody>
</table>

Source: The Central Council for Financial Services Information, Bank of Japan
Translation: YF
Financial assets of household in average by age group
2013 random sample survey

Source: Ministry of HLW of Japan
Translation: YF
Public

- Big expenditure
- Essential social system of welfare
- Demographic trend is the main driver
  - Longevity
  - Low fertility
  - Baby boomers
Public cont’d

• Pension has become more manageable, but less generous
  – Macroeconomic slide formula
    • will reduce pension payout levels as
      the size of the working-age population falls and
      people’s average life expectancy increases,
      within the increase of price and wage indexation
    • will not activated while prices and wages are falling
    • introduced in 2004, actually kicked in for the first time in 2015

• Medical Care & Senior Care are becoming more problematic
  – Both financial & human resources
Expenditure Trend of Social Security in Japan

<table>
<thead>
<tr>
<th>Year</th>
<th>National Income</th>
<th>Total Expenditure</th>
<th>(Breakdown) Pension</th>
<th>Medical Care</th>
<th>Senior Care &amp; others</th>
<th>Social Security Expenditure per capita (right-hand scale)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>61.0</td>
<td>3.5 (100.0%)</td>
<td>0.9 (24.3%)</td>
<td>2.1 (58.9%)</td>
<td>0.6 (16.8%)</td>
<td>Pension</td>
</tr>
<tr>
<td>1980</td>
<td>203.9</td>
<td>24.8 (100.0%)</td>
<td>10.5 (42.2%)</td>
<td>10.7 (43.3%)</td>
<td>3.6 (14.5%)</td>
<td>Medical Care</td>
</tr>
<tr>
<td>1990</td>
<td>346.9</td>
<td>47.2 (100.0%)</td>
<td>24.0 (50.9%)</td>
<td>18.4 (38.3%)</td>
<td>4.8 (10.2%)</td>
<td>Senior Care &amp; Others</td>
</tr>
<tr>
<td>2000</td>
<td>371.8</td>
<td>78.1 (100.0%)</td>
<td>41.2 (52.7%)</td>
<td>26.0 (33.3%)</td>
<td>10.9 (14.0%)</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>370.5</td>
<td>115.2 (100.0%)</td>
<td>56.0 (48.6%)</td>
<td>37.0 (32.1%)</td>
<td>22.2 (19.3%)</td>
<td></td>
</tr>
</tbody>
</table>

National Income A
Total Expenditure B
Pension
Medical Care
Senior Care & others

Source: Ministry of HLW of Japan
Translation: YF
○給付費に関する見通し
給付費は2012年度の109.5兆円（GDP比22.8%）から2025年度の148.9兆円（GDP比24.4%）へ増加。

Forecast on Expenditure of Social Security in Japan

Trillion JPY

2012年度
109.5兆円
（22.8%）

2015年度
119.8兆円
（23.5%）

2020年度
134.4兆円
（24.1%）

2025年度
148.9兆円
（24.4%）

Current program
Reformed program

Others
Child
Senior Care
Medical Care
Pension

注1：「社会保障改革の具体策、工程及び費用試算」を踏まえ、充実と重点化・効率化の効果を反映している。
（ただし、「Ⅱ 医療介護等 ②保険者機能の強化を通じた医療・介護保険制度のセーフティネット機能の強化・給付の重点化・連携性対策」
および「Ⅲ 年金」の効果は、反映していない。）

注2：上記の子ども・子育て、新システム制度の実施等を前提に、保育所・幼稚園、延長保育、地域子育て支援拠点、一時預かり、子どものための現金給付、
育児休業給付、出産手当金、社会的養護、妊娠健診等を含めた計数である。

注3：( )内は対GDP比である。《 》内はGDP額である。
Forecast of Japan’s population by age

1990年 (actual)
Total population: 123,610k
- 76歳以上: 5,607 (5%)
- 65～74歳: 8,922 (7%)
- 55～64歳: 7,407 (61%)
- 45～54歳: 2,267 (18%)
- 35～44歳: 3,240 (20%)
- 20～34歳: 7,500 (61%)

2010年 (actual)
Total population: 128,060k
- 76歳以上: 2,170 (17%)
- 65～74歳: 1,517 (12%)
- 55～64歳: 5,660 (45%)
- 45～54歳: 1,840 (15%)
- 35～44歳: 2,450 (20%)
- 20～34歳: 7,407 (58%)

2025年
Total population: 120,660k
- 76歳以上: 2,336 (21%)
- 65～74歳: 1,470 (13%)
- 55～64歳: 1,128 (10%)
- 45～54歳: 1,104 (10%)
- 35～44歳: 1,065 (10%)
- 20～34歳: 4,106 (37%)

2060年
Total population: 86,740k
- 76歳以上: 2,132 (20%)
- 65～74歳: 1,128 (13%)
- 55～64歳: 1,065 (12%)
- 45～54歳: 1,065 (12%)
- 35～44歳: 1,104 (13%)
- 20～34歳: 4,106 (47%)

Source: Ministry of HLW of Japan
Translation: YF
Occupational

• Optional on introduction and benefit formula & level, but legally protected once introduced
• Importance increasing
• Unfavorable trends
  – Low interest rate
  – Longevity
  – High volatility of the financial market
• Popular discussion on the role of occupational systems
  – comparing with social security and individual preparations
  – A range of employer’s responsibility
  – To concentrate more on Core than fringe
• Impact of IFRS or JGAAP’s convergence with IFRS
Occupational cont’d

• Monster DBs are rarer (compared with the US, the UK, the Netherlands)

• Changing benefit type, but keeping each company’s high level framework of benefits

• Benefit types and risk management
  – Final salary related benefit used to be common
  – Accumulated Point system: popular since 1980s
  – Cash balance plan: popular since 2002
  – DC: getting popular since 2001
  – LDI: less popular
  – DB Lump-Sum Allowance (largely unfunded): the most traditional (since 1700s) and survives
Qualified Pension Assets in Japan

Source: Resona bank
Translation: YF
Qualified Pension Assets in Japan *cont’d*

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<td>13</td>
<td>90</td>
<td>12</td>
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Source: Pension Fund Association
Translation: YF

(注)信託協会、生命保険協会、全国共済農業協同組合連合会の公表値に企業年金連合会の資産残高を加筆。
Average Asset Allocation of Qualified DB plans

Source: Pension Fund Association
Translation: YF

(Notes: The average asset allocation data shown is the weighted average of all qualified defined benefit (DB) plans. The data includes the general account of insurance companies, cash equivalents, and other investment categories such as foreign equities, foreign bonds, domestic equities, and domestic bonds. The percentages may not sum to 100% due to rounding or other factors.)
## PBO of MSCI Companies

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<th>Companies</th>
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<td>Yes</td>
<td>No</td>
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<td></td>
<td></td>
<td>PBO / Common Equity</td>
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</table>

YF (2009), Pension and Economy September 2009, Research Institute for Policies on Pensions and Aging Data: March 2009 Translation: YF
Since October 2005

Source: Website of TOYOTA
Translation: YF
SONY Pension Fund

Existing Employees (entry before 31 May 2012)
- DB Lump-sum Allowance
  - <Annuity 1> Life time
  - <Annuity 2> Limited term
- Longevity effect

New Employees (entry After 1 April 2012)
- DB Lump-sum Allowance
- DC (Cash or Deferred)

Plan Amendment

Source: Website of SONY
Translation: YF
# Existence and types of Post-employment Benefits

Survey of 2013  
Target Companies 6,144, Valid Responses 4,211

## Size of company (Employee #)

<table>
<thead>
<tr>
<th>Size of company (Employee #)</th>
<th>Total</th>
<th>Post-employment Benefits exist *</th>
<th>Lump-Sum Allowance Only</th>
<th>Qualified Plan Only</th>
<th>Both</th>
<th>Not exist</th>
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<tr>
<td>Total</td>
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<td>75.5 (100.0)</td>
<td>(65.8)</td>
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<td>93.6 (100.0)</td>
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<td>(30.0)</td>
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<td>72.0 (100.0)</td>
<td>(74.1)</td>
<td>(8.6)</td>
<td>(17.3)</td>
<td>28.0</td>
</tr>
</tbody>
</table>

* ( ) shows a percentage among companies of ‘Post-employment Benefits exist’

Source: Ministry of HLW of Japan  
Translation: YF
Why DB Lump-Sum Allowance survives?

• Cash at retirement is an important tool on expressing gratitude for long dedicated service (not paid to a bad-boy!)
• To involve core employees to share management
• To keep away from volatility of the money market
• To avoid double capitalization
• To concentrate on more service period than retired life
• Easier administration
• Easier supervision or regulation by the government
• Tax treatment of qualified plans is not necessarily attractive enough
• Supported by the faithful and comprehensible financial report of the employer
Recent Law/regulation changes

- **To promote qualified pensions**
  - **DC** (the Diet passed at May 24, 2016)
    - To enhance eligibility of DC (individual type) to
      - government employee;
      - low or no income spouse of employee; and
      - employee covered by other qualified pension plan(s)
    - To allow SME employer to make contributions to DC (individual type)
  - **DB** (public consultation May 27 – June 26, 2016)
    - To allow more flexible contributions (counter-cyclical)
    - To allow more DC-like plan design
  - **Tax exemption** (the upper house ordered the Govern’t to examine)
    - Current: E-T(temporarily stopped since 1999) -T(preferential deduction)
    - From 2017: E-E-T(the same preferential deduction?)

YF’s View & Summary
Recent Law/regulation changes  cont’d

• To promote individual savings
  – NISA (Nippon Individual Savings Account)
    • Introduced in 2014
    • Tax exemption of investment return: T-E-E
    • Annual limit of new money raised
      up to 1.2M JPY (11K USD) in 2016 from 1M JPY
THANK YOU!

www.actuaries.org

Moving the profession forward internationally