

PENSION SYSTEM IN JAPAN

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ABSTRACT

An overview of the statistical data shows that Japanese society is aging rapidly. To sustain the society, what kind of Pension System has been prepared in Japan? This paper will explain how income security has been provided for the elderly in Japan and after that, it will be compared with the Brazilian pension system. In the conclusion, some suggestions will be offered regarding the kinds of reforms which should be introduced in the future. Japan is at the global forefront of the world's aging societies, but it is difficult to say if its pension system is an exemplary one. There are many issues that need to be resolved in order to improve the sustainability of the public pension system.

Keywords: Japan. Brazil. Social Security Law. Comparative Study. Pension

1. Introduction

The aim of this paper is to explain the Japanese pension system, beginning with an overview of the statistical data.

The key population trends are shown in figure (1). According to a survey published in April 2017 by the Ministry of Internal Affairs and Communication, the population on October 1st, 2016 was 126,933,000. If this is compared with the data for 2010, when the population stood at 128,057,000, it becomes clear that Japan now has a declining population.

Figure (2) shows the trends and predictions for total population and

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Figure(1)

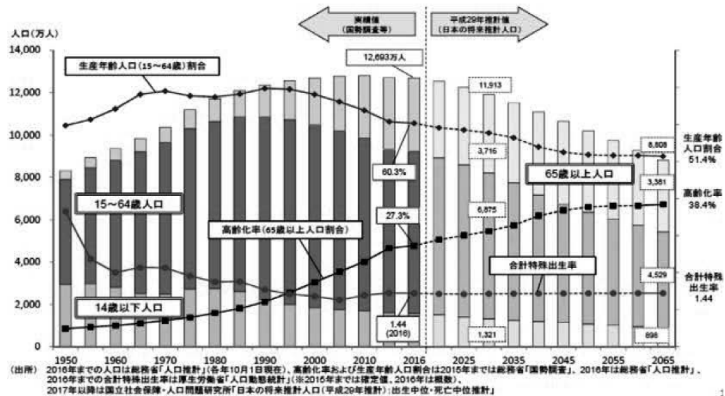
Total Population and Percentage of over 65-year-olds On October 1

	Total population	65-year-olds (% of total)
1960	93,419	5.7%
1970	103,720	7.1%
1980	117,060	9.1%
1990	123,611	12.0%
1995	125,570	14.5%
2000	126,926	17.3%
2005	127,768	20.2%
2009	128,032	22.7%
2010	128,057	23.0%
2015	127,095	26.6%
2016	126,933	27.3%

<http://www.mhlw.go.jp/toukei/saikin/hw/life/life16/dl/life16-02.pdf>

Figure(2)

Total population and Fertility Rate: Trends and Predictions



fertility. The lower portion of the chart represents the number of under-14-year-old, the middle portion people aged between 15 and 64 years old, and the upper portion the number of people over 65 years old. Clearly, the proportion of elderly people is increasing, while the number of newborn babies is decreasing, and the birthrate is continuing to decline.

The proportion of people over 65 years of age is already quite high. In 2016, 27.3% of Japanese people were over 65, representing more than one in four of

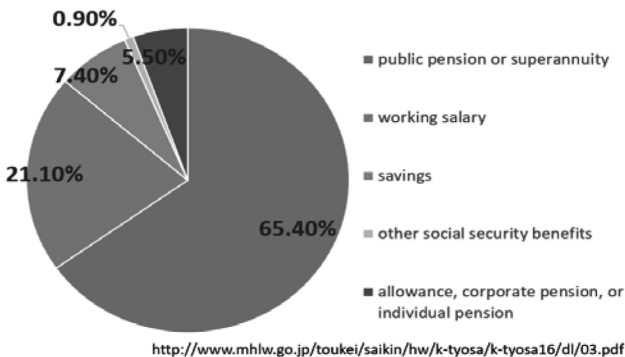
the Japanese citizens. According to the OECD data, the Japanese percentage was the highest in the world in 2013.

Japan's average life expectancy is now one of the highest in the world. In 2016, male life expectancy was 79.29, while female life expectancy was 87.14. Because of industrialization, the type of work performed by Japanese people has changed dramatically over the last 50 years. Migration from rural areas to urban centers has changed the geographical distribution of the Japanese population. The family structure has changed from 3 or 4 generation-families living under one roof to small nuclear households. It has become more difficult for the elderly to live on private support, such as money received from their children. In such a society, the public pension system has become more important than before.

According to data from the Comprehensive Survey of Living Conditions of 2016 shown in figure (3), more than 60% of income in the average elderly household is derived from the public pension or superannuities, while the second most important source after the public pension is working salaries, which represents more than 20% of elderly people's income.

Figure(3)

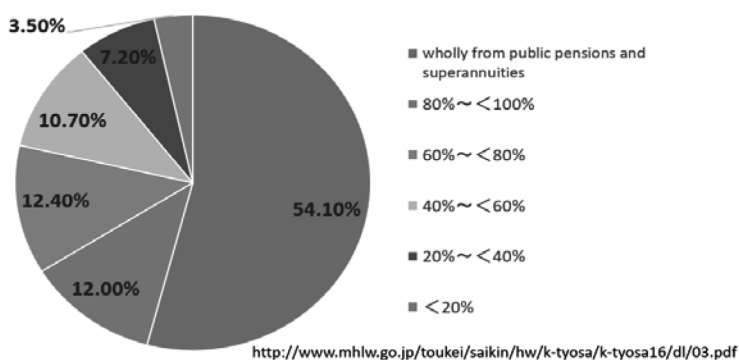
Sources of Income in the Average Elderly Household 2015



As shown in figure (4), 54.1% of elderly households live on public pension income only. About 66.1% of the elderly rely on pensions or superannuities for at least 80% of their income. The public pension system has become established as a pillar of elderly life, and plays an indispensable role in the life of Japanese people.

Figure(4)

Proportion of Income from Pensions and Superannuities 2016



2. Pension system in Japan

The Japanese pension system is often described as being a three-pillar system. The first pillar is the Basic Pension, the second is the income-related public pension exclusively for employees and the third is the individual or corporate pension, which is funded by voluntary contributions. One of the characteristics of Japan's public pension system is that it provides "universal pension coverage," whereby all people are covered by public pensions regardless of occupation, income or other factors. The pension system is managed by the Japanese Pension Service, which is supervised by the

government, and is mostly funded by a social insurance pay-as-you-go scheme. Everyone who lives in Japan has pension insurance. The basic pension and the employees' pension are the mandatory components of the public system. And the individual or corporate pension is the private one.

(1) First Pillar- National Pension System (Basic Pension Benefits)

All registered residents of Japan must be covered by the National Pension System². Those who are covered are divided into three categories, as follows:

Category 1 insured persons --All registered residents of Japan aged 20 to 59 who are not Category 2 nor 3 insured persons. Typical examples of Category 1 are self-employed persons and students.

Category 2 insured persons --Persons enrolled in the Second Pillar of income related pension for employees. These are the employees of companies.

Category 3 insured persons --Category 2 insured persons' dependent spouses, ages 20 to 59 years old.

The self-employed (Category 1 insured persons) pay a fixed contribution, which in 2017 was about 146 dollars (16,490 yen) per month. A 65-year-old who has paid 40 years of contributions can receive a full pension, which in 2017 amounted to about 575 dollars (64,941 yen) per month. For those who have not completed 40 years of contributions but have paid for at least 10 years, it is possible to receive a proportional pension benefit. This benefit is financed equally by contributions and tax revenue.

There are some exemptions for those who have difficulty in paying the contributions. To receive the exemptions, it is necessary to satisfy certain conditions specified by law. In this case, if not enough has been paid into the pension fund, the amount of the benefit will be reduced compared to the full

² National Pension Act (Act No. 141 of 1959).

pension.

(2) Second Pillar- Employees' Pension Insurance System

On the other hand, a company employee will receive the Basic Pension Benefits as described above, as well as another employees' pension³, which is an earnings-related pension. The average monthly salary for the 3-month period from April to June is used to calculate the monthly contribution and the future monthly pension payments. The contribution rate is 18.3%⁴ of the average monthly salary, which is shared between employees and employers, and cannot be increased under the current law. Tax revenue is not used to fund this employee system.

Benefits can only be received when the following conditions have been met, the first being age. Men must be at least 62 years old and women 60 years old as of 2017. The current period of transition will take the age requirement up to 65 for both sexes. The second condition is that at least 10 years of contributions must have been paid, and the third that the employee needs to have been insured in their current employees' pension system for at least one month.

Benefit is proportional to salary according to the formula shown below.

$$\text{Benefit} = \langle \text{Normal Salary (including Bonus)} \times 5.481/1000 \times \text{Number of Monthly Contributions after April 2003} \rangle + \langle \text{Normal Salary} \times 7.125/1000 \times \text{Number of Monthly Contributions before April 2003} \rangle$$

In the public pension system, it is now necessary to have paid at least 10 years of contributions, but before 2017, 25 years of contributions were

³ Employees' Pension Insurance Act (Act No. 115 of 1954).

⁴ It is not necessary for employees to pay contribution directly to the Basic Pension System but there is a transfer of money from the Employee Pension System to the Basic Pension System.

required. Compared to 25 years, 10 years seems quite short. Even after paying only 10 years of contributions, it is possible to receive benefits, but attention must be paid because the amount received in this case will be quite small because of the lack of contributions. Thanks to the reform, an employee who had contributed, for example, for 15 years is able to receive some benefit at least, but the amount of the benefit may be not enough to make a living.

(3) Public Assistance

Therefore, for those who receive no benefits, or low benefits from the public pension system, we have the Public Assistance System⁵. This system is not only for the elderly but also for all those who have trouble making a living despite utilizing all their assets and abilities, and it depends on the level of need. People of all ages are eligible to receive benefits through this system, but most beneficiaries are elderly households. In August 2017, 52.9% of households receiving this benefit were elderly.

(4) Third Pillar- Individual or Corporate pension

The public system has been described above. Now let's see the private pension system. It has become more and more important in Japan as well as in the other countries, because it is very difficult to maintain the quality of the public pension system in an aging population society which has low fertility rate. In the past, most private pensions were corporate pensions. The most famous system was called Kosei Nenkin Kikin, which consisted of two parts; one was the public one (a part of the second pillar to the employees) and the other part was the private one. In other words, the company took the place of the government and offered not only a private pension but also a part of the

⁵ Public Assistance Act (Act No. 144 of May 4, 1950).

public pension for the elderly. When the economy was good, this system worked very well, but when it was not, the burden was too heavy for the companies. The company had defined the value of the benefit, and so in the case of lack of reserve, the company would have to pay a greater contribution to the system. The companies would like to return the responsibility of the second pillar to the government.

In 2001, the corporate pension reform occurred and the defined benefit system⁶ as well as the defined contribution system⁷, similar to 401k in the United States were introduced in Japan. And a recent reform in the private pension system was instituted in 2016, which recognized the importance of the individual pension system. Before this recent reform, public servants or people whose spouses were employees could not be included in the defined contribution system, but thanks to the reform, the door has been opened for them. The public pension benefit may be adjusted and so the individual or corporate pension system has become more and more important.

3. Comparisons

It will be useful to draw a few comparisons between the Japanese and Brazilian systems.

(1) Fairness in the treatment of private workers compared to public servants

In Brazil, it has been difficult to introduce uniformity into a system in which there are large differences between the treatment of government workers and those in the private sector. Japan had experienced a similar problem until the reform process created an integrated, single system in 2012

⁶ Defined-Benefit Corporate Pension Act (Act No. 50 of 2001).

⁷ Defined Contribution Pension Act (Act No. 88 of 2001).

in order to prepare for the declining birthrate and aging society. It was necessary to expand pension finance and improve the sustainability of the system. Another goal of the reform was to make the system fairer so that private employees received the same treatment as government officials. Anyone with the same salary now pays the same contribution and receives the same pension benefits. Japanese politicians used to receive a generous pension from a special system, but this was integrated into the public system in 1900.

(2) Minimum pensionable age

With respect to the minimum age at which it is possible to receive a pension in Japan, which is normally received from the age of 65, although the current employees' system is in a period of transition. Otherwise, you can receive an early pension from the age of 60. In this case, the amount of benefits will be reduced by 0.5% per month. This early pension is necessary to maintain the funding of the system. And if you would like to start receiving benefits after 65 years old, you can choose when you will receive it. In this case, the amount of benefits will increase by 0.7% per month. But now you can delay only up to 70 years old and you cannot delay up to 75, for example. It is being discussed if we can move the pensionable age later or not.

(3) Litigation number

It is well known that in Brazil there is a lot of litigation in the social security area as well as in other areas of law. However, in Japan, generally we have very little litigation, especially in social security law. Litigation in court takes time and money. The systems are managed too professionally and are too complicated for people to want to go to court to appeal against a decision of the government.

(4) Social Security Agreement

It is important to mention the presence of the agreement between Japan and Brazil on social security. The agreement was enacted in July, 2010, and executed in March, 2012, for the purpose of protecting the Japanese who work in Brazil and the Brazilians who work in Japan. For Japan, it was the first agreement with a Non-OECD country. In spite of some issues that must still be resolved⁸, it was a very important step for people who go back and forth between the two countries.

4. Conclusion

This paper has given an overview of the pension system and the public assistance system in Japan. In conclusion, some suggestions will be offered regarding the kind of reforms which should be introduced in the future.

Japanese society is aging rapidly. The age at which benefits can be received will have to be further increased. If elderly people can work longer and would like to do so, it will be better for them to work and so to sustain the pension system. Consequently, in the future, they will receive more benefits.

When the pension system is next reformed, attention will have to be paid to the labor market for the elderly. As the pension will be paid from 65 years of age in the future, the law⁹ requires companies to keep their employees in work up to that age. If the pensionable age is further increased, it will be necessary to ensure that elderly people keep working for even longer. But this will cause other problems in the labor market, especially for younger people.

⁸ SHIMAMURA, Akiyo e TAKAHASHI, Bruno. Acordo Previdenciário Brasil-Japão: características e questionamentos. Agreement between Brazil and Japan on Social Security: characteristics and questionings, to be published in São Paulo.

⁹ Act on Stabilization of Employment of Elderly Persons (Act No. 68 of May 25, 1971).

In the employees' pension system, there is an adjusting system only for those who work and also receive the pension. If you are earning a salary above a certain level and are covered under the Employees' Pension System, the pension benefit will be either reduced or suspended. This adjusting system is good in economic terms, but has been strongly criticized because there is a disincentive for the elderly to work. How to adjust this system is another issue to be resolved.

Because of changes in the labor market, many people are self-employed and thus not part of the Employees' Pension System. For these people, the level of the basic pension on its own is not high enough. The pension level, especially in the basic pension, should be discussed in the future. And if an individual has only 10 years of contributions, he can receive a pension thanks to the recent reform, but the amount of the pension will be very low because of the lack of contributions. The problem of how to support this type of person will be one of the more serious challenges of the future. Further, we have to discuss if we can even keep this current system.

Another problem is that there are many part-time workers and casual employees who fall outside the employees' pension system. Although a comprehensive reform of social security and tax took place in 2012, only some people became eligible to benefit from the Employees' Pension System. The Japanese government will also need to address the question of how to insure those who are currently excluded from the employees' system.

Japan is at the global forefront of the world's aging societies, but its pension system is far from being exemplary. There are many issues that need to be resolved in order to improve the sustainability of the public pension system.

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