

# Japan

## Japan: Pension system in 2008

The public pension system has two tiers: a basic, flat-rate scheme and an earnings-related plan (employees' pension scheme).

## Key indicators

		Japan	OECD
Average earnings	JPY (million)	5.00	4.20
	USD	48 400	40 600
Public pension spending	% of GDP	9.8	7.0
Life expectancy	At birth	82.6	78.9
	At age 65	85.7	83.1
Population over age 65	% of working-age population	35.5	23.6

## Qualifying conditions

The old-age, basic pension is paid from age 65 with a minimum of 25 years' contributions. The full basic pension requires 40 years of contributions, with benefits adjusted proportionally for shorter or longer contribution periods.

The earnings-related pension is paid in addition to basic pension, with a minimum of one month contribution, provided a pensioner is entitled to the basic pension. The pension age is gradually being increased from 60 to 65 years (between 2001 and 2013 for men and between 2006 and 2018 for women) for the flat-rate component and from 60 to reach 65 years for men in 2025 and for women in 2030 for the earnings-related component. The earnings-related component of the employees' pension scheme is adjusted for shorter or longer contribution periods.

## Benefit calculation

### Basic

The full basic pension for 2008 was JPY 792 100 per year, corresponding to 15.8% of average earnings. The basic pension is price indexed.

### Social assistance

There is social assistance as other income security system. Older people are covered by the general social assistance scheme. The social assistance amount for single household aged 60-69 in Tokyo in 2008 is JPY 969 810 (i.e. 19% of average earnings) per year excluding housing benefit and other relevant benefit.

### Earnings related

The employees' pension scheme has a flat-rate and an earnings-related component, of which the earnings-related part is by far the most important. The accrual rate was 0.75% of earnings excluding bonuses until fiscal year 2002. From fiscal year 2003, the base for calculating pension was extended to include bonuses. With the extension of the base for calculating the pension, the accrual rate has been reduced to 0.5481% of earnings (including bonuses).

Earlier years' earnings are valorised in line with economy-wide average net earnings.

There is a ceiling on earnings subject to contributions of JPY 620 000 a month equivalent to 149% of average earnings.

The flat-rate benefit depends on year of birth. In 2008, it ranged between JPY 1 676 and JPY 3 143 per month of contributions. This is paid only to pensioners between 62 and 64 years and this benefit will be phased out by 2013 for men.

The employees' pension in payment is price indexed.

### **Contracting out**

Employers, who have at least 1 000 employees, may "contract out" a portion of the earnings-related pension (substitution part) if they cover their employees themselves; around 15% of employees participate in these schemes. Contracting-out requires that employers offer at least 150% (before 2005: 110%) of the benefit that the public earnings-related scheme would have provided. The calculation of the pension required for contracting out is based on lifetime average nominal earnings. Indexation of pensions in payment and valorisation of past earnings is financed by the government.

The contribution rate in contracted-out schemes is determined by the government depending on the age structure of the covered employees and the actuarial assumption. Until 1996, however, the rate was uniform across plans. Since 2005, the rate ranges between 2.4% and 5% of total remuneration.

Since 2001, the government has also been promoting defined-contribution pension schemes and defined-benefit occupational pension schemes. As a consequence, several employees' pension funds have been dissolved.

## **Variant careers**

### **Early retirement**

Until 2001, a "specially provided" employees' pension was available at age 60. This is being phased out and retirement with a full benefit will not be possible before age 65.

Early retirement at a reduced benefit is possible in both the basic and earnings-related schemes. The benefit is reduced by 0.5% per month of early retirement, i.e. 6% per year. Individuals can claim the flat-rate component of the employees' pension between 60 and 65. The pension in payment is indexed to net average earnings until the pensioner reaches age 65 and price-indexed after age 65.

### **Late retirement**

It is possible to defer receipt of the basic and earnings-related pensions. Deferral increases the pension benefit by 0.7% per month, i.e. 8.4% per year. Pension rights continue to accrue for each year of contributions beyond 65.

From 2006, combining work and pension after age 65 became possible provided total income (from earnings and pension) does not exceed JPY 480 000. Above this limit, half of the excess will be reduced from the full earnings-related pension payment but basic pension will be paid in full. From April 2007, the reduction has also been applied to the workers over 70 but they do not need to pay contribution.

### **Childcare**

Periods spent out of paid work for childcare are credited in the earnings-related scheme. As of 2005, the maximum period has been extended from one to three years. If additional children are born while caring for a child, this period is extended until when the last child becomes 3 years old. During this period, contributions are considered to be made fully based on the earnings just before leave, and in calculating the benefit and qualifying conditions the entire exemption period is credited. In case parents work part time because of childcare responsibilities, the contribution will be made based on the current earnings but the pension benefits will be calculated based on their full-time previous earnings.

If people stay out of paid work after three years and income level drops, the rule under unemployment, below, also applies.

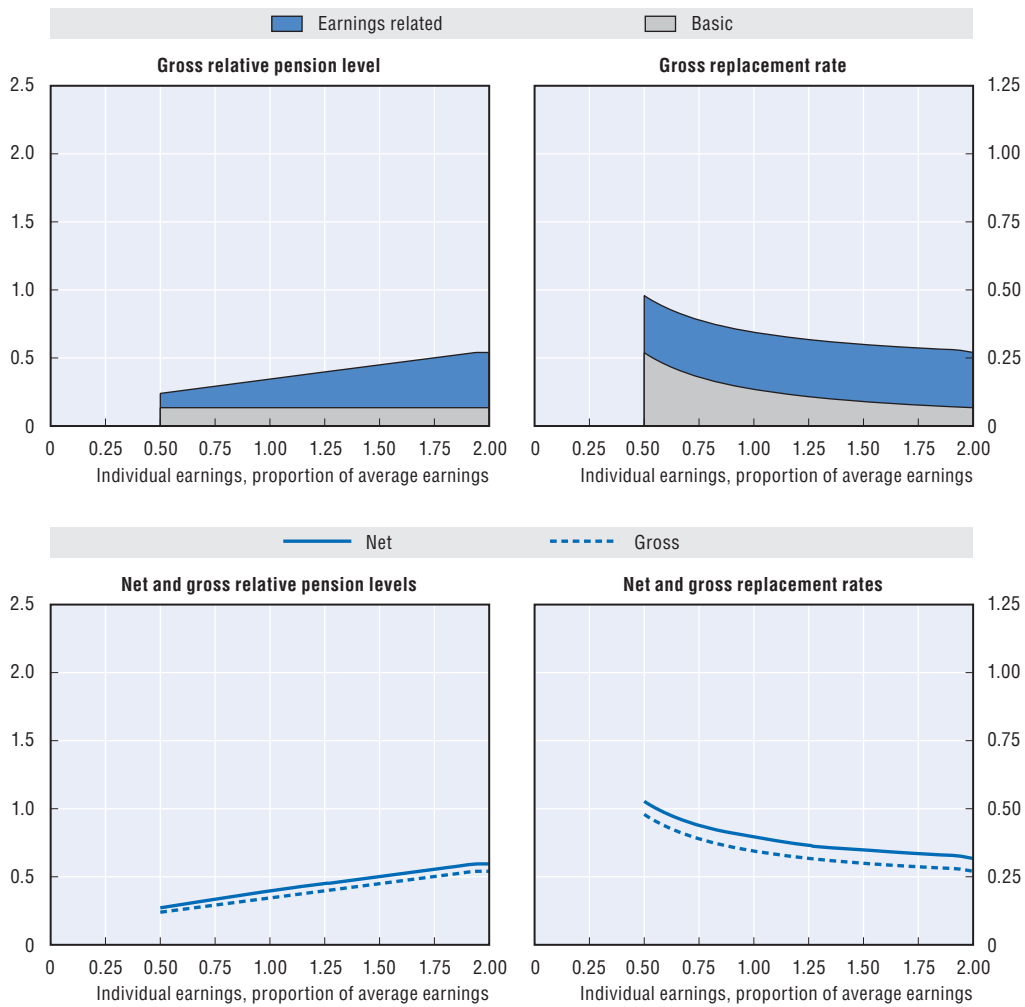
### **Unemployment**

Workers who become unemployed or whose income is below a certain level do not need to contribute to the earnings-related scheme but they need to contribute to the basic scheme. Unemployed people may be exempted from paying all, three-quarters, a half or one-quarter of contributions, depending on the household income level. A single person with previous year's income less than JPY 570 000 is exempted from paying any contribution. People with income less than JPY 930 000 are entitled to one-quarter of contributions, those with income lower than JPY 1 410 000 pay one-half of contributions and those with income less than JPY 1 890 000 pay three-quarters of contributions.

For the periods of full exemption, people are entitled to one-third (after April 2009, one-half) of the basic pension and for the period with one-quarter of contribution, one-half (after April 2009, five-eighths) of the basic pension. For the periods with one-half contribution, people gain two-thirds (after 2009, three-quarters) of the basic pension and for the period with three-quarters of contribution, five-sixths (after April 2009, seven-eighths) of the basic pension is credited. The exempted period is counted as full contribution period in assessing the qualifying conditions.

It is possible to pay contributions later to receive higher pension after retirement.

### Pension modelling results: Japan



Men Women (where different)	Median earner	Individual earnings, multiple of average				
		0.5	0.75	1	1.5	2
Gross relative pension level (% average gross earnings)	31.9	24.0	29.2	34.5	44.9	54.1
Net relative pension level (% net average earnings)	36.8	27.2	33.5	39.7	50.2	59.5
Gross replacement rate (% individual gross earnings)	36.3	47.9	38.9	34.5	30.0	27.0
Net replacement rate (% individual net earnings)	41.4	52.7	43.9	39.7	34.9	31.7
Gross pension wealth (multiple of individual gross earnings)	6.1	8.1	6.6	5.8	5.1	4.6
Net pension wealth (multiple of individual gross earnings)	5.6	7.3	6.0	5.4	4.5	4.0
	6.8	8.8	7.2	6.4	5.4	4.8

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