# Reform of the Pension System

## Background to the Reform of the Pension System

- Progression towards an aged society with a declining birth rate
- Changes to basic economic conditions

→

**Large Increases in the Burden on Future Generations**

If the current system is left unchanged, contributions will double after fiscal 2025

- Employees' Pension 17.35% → 34.5% (of monthly income)
  13.58% → 26.7% (of annual income)
  (burden borne equally by employers and workers)

- National Pension about 13,000 yen → about 26,000 yen

## Reconstruction of a Sustainable Pension System

- To ensure that our children's and grandchildren's generations are not overly burdened.
- To ensure that the pension system is stable in the future and can continue to support the nation's aged.

Key Reforms

(1) Future Employees' Pension contributions will be kept at 20% of annual income (with personal contributions of 10%)
(2) Mechanisms to adjust increases in total benefit amount will be adopted.
(3) Initial pension benefits will be kept to roughly 60% of the annual take-home income of the working generation.
∗ The reforms will not result in a reduction in the pension entitlements of current recipients.

① Increasing the age at which recipients are initially entitled to benefits will mean the total benefit that will be received in the future will be less than under the current system, but the future contribution burden will also decrease.
② This current reform is necessary to ensure that our children's and grandchildren's generations are not levied with too heavy a burden.

## Employees' Pension Contributions for Our Children's and Grandchildren's Generations (Based on Annual Earnings)

**Contributions Prior to the Reform**

26.7%

(Borne equally by workers and employers)

→

**Contributions After the Reform**

Around 20%

(Personal contributions of 10%)

POINT

# Individual Reform Measures

## ① National Pension Contribution Exemption for Students (Implemented April 2000)

(1) Students under 20 years of age whose annual personal income is under a certain level (1.33 million yen in fiscal 2000) can apply to opt out of national pension contributions. Note: Each monthly contribution the student elects not to pay during the exemption period can be paid during the ten years following that month.
(2) Electing to not pay contributions during the student exemption period will not affect the amount of the basic aged pension, however it will be taken into account in determining the period of eligibility.
(3) The maximum disability pension appropriate to the degree of disability will be paid if a disabling accident occurs during the student exemption period.

## ②Relief from Employer Employees' Pension Contributions during Employee Childcare Leave (Implemented April 2000)

Prior to the reforms only employee contributions were suspended during a period of childcare leave. However, as part of the response to the declining birth rate and in order to make it easier to obtain childcare leave, employer contributions will also be suspended during childcare leave.

## ③ Introduction of a System of 50% Reduction in National Pension Contributions (Implemented April 2002)

(1) Category-1 insured persons eligible to make national pension contributions whose income is below a certain level can apply for a 50% reduction in contributions (the 50% Reduction System). Note: This will not apply to students eligible for the student exemption period.
(2) When the amount of the old-age basic pension is calculated, the period of 50% reduction in contribution payments will be assessed as a reduction of 1/3 in the duration of contribution payments.

## ④ Introduction of a Single Rate System (To be Implemented in April 2003)

(1) Under the current Employees' Pension, contributions are levied at 17.35% of monthly income, whilst a special rate of only 1% is imposed on bonuses and similar income, this lower rate not being reflected in benefits. In the interests of fairness in contribution burdens, the reforms will make the usual rate applicable to bonuses and this will be reflected in benefits.

(2) Contribution rates and pension benefit calculation rates will be reduced as follows in order to prevent changes in total contribution and benefit amounts. The same contribution and benefit calculation rates will be applied to both monthly and bonus wages.

| | Current | | Under Single Rate System |
|---|---|---|---|
| Contribution Rate | 17.35% | → | 13.58% |
| Benefit Rate | 7.125/1000 | → | 5.481/1000 |

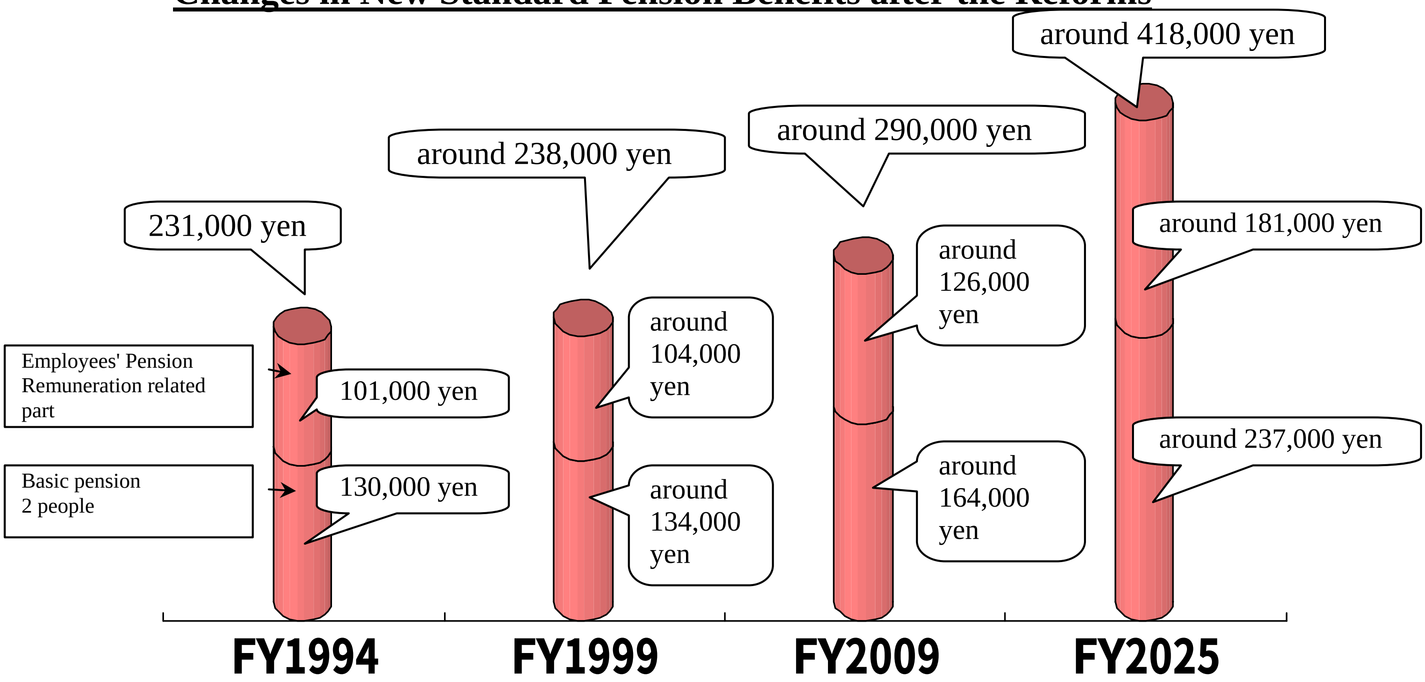
POINT

# Four Measures to Tackle the Increase in Total Benefits

## ① Adjustment of Increase in Remuneration Related Part, Rationalisation of Benefit Levels by 5% in Preparation for the Future (Implemented April 2000)

- Interim measures have guaranteed that pension benefits are pegged to prices and these reforms will not reduce pension benefits.
- Even after the reforms the initial basic pension benefit (for a couple) will be kept at roughly 60% of the take-home pay of the working generation.

### Changes in New Standard Pension Benefits after the Reforms




Note: ① The standard pension benefit for a salaried worker's household (married couple: husband who has made contributions for 40 years and full-time housewife)

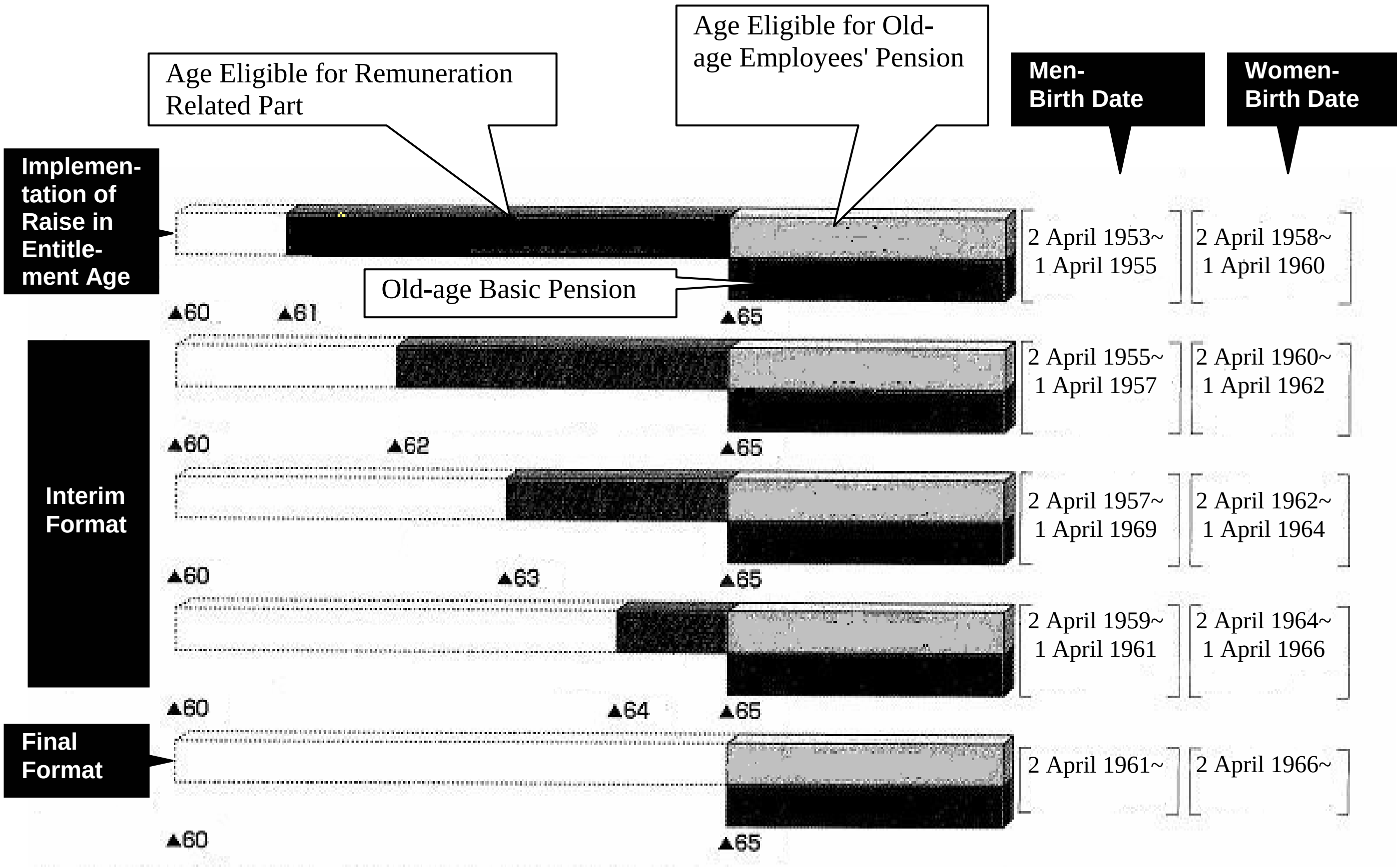
② Test calculations based on the assumptions of an inflation rate of 1.5%, and annual increase in take-home pay of 2.3%

## ② Change to the Sliding Scale for Basic and Employees' Pensions for those Aged over 65. (Implemented April 2000)

(1) For people over the age of 65 benefits will not rise as wages rise but be pegged to prices.
(2) As the benefits will be firmly pegged to prices, there will no loss in real value of the pension. The standard of living of the pension recipient will be maintained even if prices rise.
(3) However if, as in the past, the difference between the pension calculated by reference to wages and the pension pegged to pricess is greater than 20%, future reforms will adopt the wage reference calculation system.

## ③ Increase in the Eligibility Age for the Old-age Pension (Remuneration Related Part) (To be Implemented in Fiscal 2013)

The age at which entitlement to the remuneration related part old-age pension benefits begins will be raised from 60 to 65, increasing by one year every three years. The change will be implemented for men between the fiscal years 2013 and 2025 and for women between fiscal years 2018 and 2030.




* (1) It is possible to receive the pension in advance from age 60.
(2) The reduction rate for advance pension benefits for those who reached aged 60 in fiscal 2001 was 0.5% per month (6% annually). The rate for a five-year pension advance will be reduced from the current 42% to 30%.

## ④ Introduction of Eligibility for the Old-age Pension Benefit for Workers Aged over 65 (Implemented in April 2002)

(1) Private sector workers aged 65 to 70 receiving income will be eligible for the Employees' Pension and required to make contributions.

(2) Wage related adjustments will be introduced for the remuneration related part of Employees' Pension benefits for working recipients aged 65 to 70. Note: Payments will not be stopped for workers who reached the age of 65 before April 2002.

- The full Employees' Pension will be paid until combined monthly income from wages and aged Employees' Pension benefits reaches 370,000 yen (504,000 yen adding the fiscal 2000 basic pension for a couple). When combined income exceeds this limit there will be a Employees' Pension reduction of 50% of the excess wage amount.
- The full old-age basic pension will be paid.