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CONTENTS

General Survey

White Paper on the Ageing Society

At a conference on measures to cope with the ageing society and at a Cabinet meeting on May 29, 1998, the government approved the 1998 White Paper on the Ageing Society. In the white paper, the government assesses the greying of Japanese society and considers ways of coping with its elderly population. This is the third annual white paper on the ageing of the population. The Basic Law on Measures for the Ageing Society (1995) provides for such a white paper.

In February 1998, the population over 65 stood at 20.05 million, the first time that this section of the population had topped 20 million. The figures come from provisional estimates supplied by the Management and Coordination Agency. The population is ageing rapidly. The white paper suggests that the number of people aged over 65 will total 32.45 million in 2050, accounting for 32.3 percent of the total population. In view of this trend, the white paper urges that both the national and local governments, enterprises and regional organizations should begin to explore ways of coping with the ageing of the population.

The white paper is critical of the traditional view that older people should be treated as being in need of special support. It argues that elderly people should not be treated simply as dependents. According to the public opinion poll, it reports, 33.4 percent of people aged over 60 replied that they would continue to work as long as possible if they stayed healthy. The white paper stresses the fact that many older people have a strong will to work and that they are enthusiastic about life-long learning, finding in such education something to live for. Finally, it notes that an analysis of the savings of households in which the head is aged over 60 shows that there are big individual differences in the financial situation of the elderly. The white paper maintains that measures to deal with the elderly should recognize the great diversity among these older people.

Labor-Management Relations

Unions Prefer Joint Consultation to Collective Bargaining

The Ministry of Labour released findings from a survey on labor-management communication. The survey asked about collective bargaining, joint consultations and grievance procedures during a three-year period from July 1, 1994. Once every five years, the ministry sends questionnaires to private-sector unions with 30 members or more to provide information on collective bargaining and labor disputes. Five findings of the 1997 survey are of interest.

First, during the three-year period 86.4 percent of the unions had held talks with management concerning working hours; 81.4 percent had discussed wages with management; and 77.4 percent had exchanged views concerning employment and personnel matters.

Second, 59.8 percent of the unions bargained collectively with management on wages while dealing with working hours either at the bargaining table or through some form of joint consultations. As for employment and personnel matters, many unions dealt with management through joint consultation. The highest percentage of the unions held talks on wages at the bargaining table, but the percentage doing so decreased by 7.4 percent from 67.2 percent recorded in the previous survey in 1992. The percentage of the unions utilizing some form of joint consultation to resolve wage issues with management rose by 6.6 percent from 34 percent to 40.6 percent. It is safe to say from this that the avenue for negotiations on wages has shifted some from collective bargaining toward joint consultations.

Third, 78.1 percent of the unions have a joint consultative body; 85.6 percent of those unions distinguish between matters dealt with through joint consultations and those dealt with at the bargaining table.

Fourth, as a means of solving problems involving labor and management, 50.5 percent of the unions emphasized joint consultation while 41.6 percent emphasized collective bargaining. Just under one percent emphasized labor disputes. One might therefore surmise that Japanese unions will continue to rely on talks with management rather than on labor disputes to resolve their differences with management.

Fifth, eight percent of the unions surveyed had engaged in a labor dispute during the three-year period, down from the 10 percent recorded in the 1992 survey. Wages was the matter most frequently dealt with in labor disputes. The percentage of unions involved in a labor dispute was 13.7 percent in the services industries; 11.4 percent in real estate; 8.5 percent in manufacturing; and 7.9 percent in transport and telecommunications. The size of the union seemed to be inversely correlated to the likelihood of having a dispute.

Public Policy

The Tokyo District Court Invalidates an Order by the CLRC that the JR

Companies Rehire Former JNR Workers

On May 28, the Tokyo District Court ruled that privatized Japan Railway (JR) companies are not required to employ former Japanese National Railways (JNR) workers. When the JR companies refused to employ members of Kokuro (the National Railway Workers' Union) after the division and privatization of the JNR in 1987, the Central Labor Relations Commission (CLRC) ordered the JR companies to take on the JNR's former employees. The ruling invalidates a series of orders by the CLRC that the JR companies rehire former JNR workers. The JR companies claimed the verdict as "quite reasonable." The CLRC and Kokuro, on the other hand, have appealed the case to the Tokyo High Court.

In April 1986, before it was divided into six companies and privatized, the JNR had more than 277,000 workers. Of that total number, 200,650 were rehired by the six JR group companies and about 70,000 were forced to leave their jobs.

The JNR Reform Law called for members of a Japan Railway Founding Committee to provide criteria by which former JNR employees would be chosen to work for the new organizations. The law provided for the old JNR to prepare a list of job seekers. Finally it stipulated that the committee members would pick employees from the JNR-prepared list of job seekers on behalf of the JR companies. The JR companies based their selection of former JNR workers upon the JNR Reform Law. About 7,600 JNR workers were neither rehired by the JR companies nor assured re-employment. They were employed by the JNR Settlement Corp. for a period of three years. The corporation was established to dispose of the JNR's long-term debts, and is to be dissolved in October 1998. Most of the 7,628 former JNR workers are Kokuro members who opposed the division and privatization of the JNR.

The Kokuro members either found jobs elsewhere in the public or private sector or were moved from their old JNR posts to new JR posts in other regions. However, 1,047 union members, (966 of whom were Kokuro members) had very much wanted to be rehired by a JR company in their own regions. Eventually, they were turned down and then dismissed by the corporation at the end of March 1990.

At a time the JNR prepared the list of job seekers, they claimed they were discriminated against because of their affiliation with Kokuro. Accordingly, they filed a complaint alleging unfair labor practices with the 18 Local Labor Relations Commissions across the nation.

The JR companies argued that the JNR, not the new JR companies, was responsible for the selection of workers on the list even if the action constituted an unfair labor practice. They argued that the JNR and the JR settlement are different corporations and that the JNR

Settlement Corp. succeeded the JNR. The refusal of the JR companies to rehire former JNR workers developed into a conflict over where the responsibility as an employer lay.

The Local Labor Relations Commissions concluded that the JR companies are responsible because "the JNR and the JR companies are substantially the same in terms of what they do." The CLRC expressed the view that members of the JR Founding Committee had ultimate authority over the selection of JR workers and that the committee members were essentially in a position to exercise influence over the JNR's selection of job seekers, and the JNR authorities were committed simply to preparing the list and only to selecting JR workers. It found that the JNR was an "auxiliary organ" of the Founding Committee and concluded that the JR companies bore responsibility. The CLRC issued a series of orders stating that the JR companies were obliged to employ Kokuro's members. The JR companies then appealed to the Tokyo District Court.

The 11th Civil Affairs Division of the Court dismissed the CLRC's orders, and sided with the position taken by the JR companies. While suggesting that the JR companies were likely to be held responsible under certain conditions, the 19th Division pointed out that the CLRC had gone beyond its jurisdiction in ordering the JR companies to rehire Kokuro members. Like the 11th Division, it dismissed the CLRC's series of orders.

The Bill Revising the LSL Carried Over to the Next Diet Session

The government's bill to revise the Labour Standards Law (LSL) was presented to the ordinary session of the 142nd Diet. However, a decision on the bill was deferred to the next Diet session as the governing and opposition parties in the Lower House could not reach agreement.

The amendments relax basic requirements that an employer must have met to adopt the discretionary work scheme or the work hour averaging system. They will also require that working conditions be clearly written down and provide for the issuance of certificates of employment to workers when they retire.

Following a general explanation of the bill at the plenary session of the House of Representatives on April 21, the bill was referred to the Committee on Labor Affairs under the House of Representatives five times before May 15. After the question-and-answer sessions on May 18, it was expected that the bill was put to a vote in the committee on May 19, and then sent to the House of Councillors.

Throughout deliberations, the opposition parties, (including the Democratic Party of Japan) maintained that the discretionary work scheme would likely be adapted for all white-collar workers and that the role of a newly proposed labor-management committee that would presumably assume responsibility for overseeing the scheme was not clear. In order to resolve the situation, former Minister of Labour Bunmei Ibuki and Chairman Keishu Tanaka of the Labour Relations Committee met on May 14, to work out a compromise. Responding to the government's willingness to entertain some revisions to the amendment, senior members from the governing and opposition parties began to draft the amendment bill.

On May 16, the committee's senior members agreed on the amendment bill. The revised bill will postpone the implementation of the discretionary work scheme for one year. It will provide for the worker to approve any discretionary work arrangements. The senior members then decided to put the amendment bill to a vote of all committee members.

The Social Democratic Party, part of the governing coalition, does not have a senior member on the committee. Accordingly, it was not involved in drafting the bill. It opposed submitting the bill to a ballot, and argued that the proposals put forward by the senior members were unsatisfactory in terms of the restrictions contemplated for late-night work for men and women, the upper limits placed on overtime and holiday work, and the measures designed to prevent the spread of discretionary work scheme.

Prior to the SDP's departure from the governing bloc, the Liberal Democratic Party had demanded that all parties on the committee (save the Japanese Communist Party) agree on all of the amendments before putting the bill to a vote. On May 20, the senior members of the Lower House Labor Relations Committee met to discuss the SDP's decision to oppose the amendments. At the meeting, the LDP, the SDP, the DPJ, the Heiwa and Kaikaku Club, and the Liberal Party all agreed to carry the bill over to the next Diet session.

The bill was thus carried over to an extraordinary Diet session to be convened immediately after the Upper House election on July 12.

Largest Drop in the Number of Tax-qualified Retirement Pensions in 1997

The number of tax-qualified retirement pensions, one of the typical corporate pensions, has dropped sharply. In 1997, the number of tax-qualified retirement pensions dropped to 1,933, the largest fall ever recorded. It seems that the increasing number of companies have abandoned their corporate pension plan because of corporate bankruptcies resulting from the slump in the national economy and their worsening business performance.

A tax-qualified retirement pension can be established by firms with 15 or more employees. They are established mainly by small and medium-sized firms. In the mid-1980s and onward, many small and medium-sized firms began to adopt the plan to secure quality people, and in fiscal 1993, the number of such pension schemes reached 92,467. Thereafter, during the recession that followed the economy's "bubble" years, the number gradually decreased. It fell by 112 in 1994, by 890 in 1995, by 1,222 in 1996 and by 1,993 in 1997. The number of employees participating in such pension plans dropped by about 160,000 in 1997 and stood at 10,460,000 people at the end of the year.

Corporate bankruptcies owing to the economic slowdown, the growing number of firms abolishing their pension plans, and the long-term low interest rate undermined the health of the assets backing up many tax-qualified retirement pension schemes. Accordingly, if a company goes bankrupt or has to abolish its tax-qualified retirement pension plan, its employees become unable to receive the pensions they expect to receive.

Voices calling for the government to protect the members of such schemes will likely become stronger in the years ahead. In response to this, the Ministry of Finance, the Ministry of Health and Welfare, and the Ministry of Labour are studying ways to draft regulations that will protect corporate pensions. The aim is to provide a mechanism that will protect all participants, and will apply to all corporate pensions (including tax-qualified retirement pensions).

Special Topic

Occupational Pension Systems in Japan

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A. BACKGROUND DATA

1. Forecast for Demographic Change

Average life expectancy in Japan is the highest in the world, with men at age 77.0 and women at age 83.6 in 1996. The birthrate decreased to its lowest level, 1.42, in 1995 (from 2.37 in 1955) and will fall to 1.38 in 2000 before recovering to 1.61 in 2025. The population will peak at 128 million in 2007 before falling to 101 million in 2050. The ratio of elderly population will increase to 27.4 percent in 2025 and to 32.3 percent in 2050 from 14.6 percent in 1995.

2. Forecast for Macroeconomic Data

The deficits of central and local governments rose to 7.4 percent of GDP in fiscal 1996 from 5.4 percent in fiscal 1992. The government plans to lower the deficit to 3.0 percent or less of GDP by fiscal 2003 and to stop issuing deficit-covering bonds by fiscal 2003. Its goal is that the ratio of tax and social security contributions to the National Income should be no more than 50 percent at the peak of ageing in next century. The ratio increased from 24.3 percent in fiscal 1970 to 36.6 percent in fiscal 1995, with greater possibility of 38.3 percent in fiscal 1998. The ratio, including burdens from deficit-covering bonds, will increase from 50.7 percent in fiscal 1998 to 73.4 percent in fiscal 2025. The ratio of social security contributions to the National Income increased from 5.4 percent in fiscal 1970 to 13.2 percent in fiscal 1995, with greater possibility of 13.7 percent in fiscal 1998. To achieve its plans, the government intends to introduce radical tax, fiscal and administrative reforms, including the reform of social security with a more than 20 percent cut of benefits.

3. State Pensions

Retirement benefits are provided mainly from the following programs:

* National Pension Program (NPP);
* Employees' Pension Insurance Program (EPIP).

Employees of central and local governments enjoy more preferable special schemes that include occupational pensions automatically with government subsidies.

(1) The National Pension Program (NPP) applies to those not covered by the programs for employees, with 24.1 percent of pension maturity rate (numbers of pensioners/numbers of contributors). The NPP is financed by flat rate contributions from all residents age 20 to 60 and by government subsidies. Each April 1, the contribution is increased by ¥500 plus the increase in the consumer price index for the previous fiscal year. Residents who have no income or very low income are exempt from contributions, but their benefits are reduced to only one-third.

Number of insured people	70 million
Contribution	¥12,800 month
Government subsidy	One-third of the cost of the basic program, plus administrative costs.

(As of the end of March 1996. Contribution is as of April 1, 1997.)

(2) The Employees' Pension Insurance Program (EPIP) is the state earnings-related pension scheme for private-sector employees and the biggest pension for employees, with 20.1

percent of pension maturity rate. The program is financed by contributions from employees and employers, and by government subsidies.

Employees of central and local governments enjoy more preferable special schemes that include occupational pensions automatically with government subsidies.

Number of insured	33 million
Amount of assets	¥112 trillion
Normal contributions	17.35% of earnings based on 30 standard monthly remuneration categories, from ¥92,000 to ¥590,000. The contribution is shared equally between employee and employer. The average employee pays ¥29,400 a month. The rate is projected to rise to 34.3% by 2025.
Additional contribution	1.0% of bonuses, shared equally between employee and employer.
Government subsidy	Only for administration costs. No subsidy for the earnings-related part of the program.

(As of the end of March 1996. Contribution is as of April 1, 1997.)

4. Retirement Age

An anti-age discrimination law was "not" enacted in Japan. Almost all employers have adopted the mandatory retirement system of age 55 to 60 after World War II and the mandatory retirement age of has prevailed, with only less than five percent of employees enjoying mandatory retirement age 61 to 65. Almost all occupational pensions pay benefits from age 55 to 60. Developments in the global economy, stagnant economy, substantial demographic changes, decreasing union membership rate of employees to 22 percent and "Big Bang" financial reform from fiscal 1998 have recently together been decreasing greatly the popularity of the job-for-life system, the seniority system and the mandatory retirement system that have traditionally sustained income security of employees since World War II. Even in today's older society, many employers are recently very eager to have their employees quit from age 45 to 50 with some additional lump-sum severance money.

The pension from the NPP is payable from age 65 after at least 25 years' contributions.

Under the EPIP, the basic flat-rate benefit and earnings-related benefit is payable from age 60 for men and age 59 for women after at least 25 years' contributions, including years covered by the NPP. The pension age will be equalized at 60 for men and women in 1999.

Every five years, the social security pensions would be revalued and re-calculated according to economic and demographic changes, and would be amended. By the 1994 amendment, the pension age of the basic flat-rate benefit will increase gradually to age 65 for men from 2001 to 2013 and for women from 2006 to 2018. The earnings-related pension is payable from age 60 subject to an income test. So how to get the retirement income from age 60 to 65 is an urgent problem for employees.

5. Likely Trends in the Evolution of Social Security Benefits

Because of (a) large budget deficits, the stagnant economy with severe structural problems and decreasing strength of financial industry since the collapse of the bubble economy in the early 1990s, and (b) the poor establishment of social security governance (particularly pension governance), the existing social security system is unlikely to be sustainable even in early next century.

Based on an unrealistic high discount rate of 5.5 percent in the age of super low interest rates, the government has maintained the level of state pension benefits at about 60 percent of income immediately before retirement. The yield on the benchmark No. 182 government bond, carrying a three percent coupon and due in 2005, has been below two percent since September 1997. The official discount rate of the Bank of Japan remains at its lowest level of 0.5 percent for over two years. The huge funds of the NPP and EPIP (more than ¥120 trillion) have been invested in the giant "*Zaito*," which is the government's fiscal investment and loan program, and is the biggest investment bank in the world. The *Zaito* has lent the money to many inefficient and really bankrupt government special organizations and has had huge bad loans. The investment yield on NPP assets decreased from 7.1 percent in 1985 to 5.1 percent in 1994, 4.9 percent in 1995 and to 4.6 percent in 1996. The yield on EPIP assets decreased from 7.2 percent in 1985 to 5.3 percent in 1994, 5.2 percent in 1995 and to 5.0 percent in 1996. The government decreased the loan rate of the *Zaito* to the lowest level of 2.0 percent in October 1997. Because of bigger political risks, the forecasts of future birthrate has been calculated incorrectly higher. As for the accounting rule, the pension assets have been valued not by the fair market value rules, but by book value rules. So the state pensions are really bankrupt with huge unfunded pension responsibilities. But the government has made no disclosure about the real unfunded amounts, so people cannot know how big they are.

The government made the regular amendments by recalculating and reassessing state pensions every five years. The government increased the contribution rate of EPIP from 14.5 percent to 20.5 percent in 1994. But the government admitted in 1996 that the state pensions have been effectively insolvent and that the increased contributions from the 1994 amendments will not be enough to sustain state pensions. The government now intends to make the regular amendments of the state pension system in 1999, with actuarial revaluations. It intends to present the EPIP amendment law bill to the Diet in February 1999 and plans to adopt all or some of the following reforms for the EPIP:

* decrease benefits by 20 percent with greater possibility to reduce the contribution rate to 26.0 percent in 2025 (only 10 percent decrease of the benefits, the contribution rate will increase to 30 percent);
* make no increase in benefits in line with the average increase in the disposable income of employees every five years;
* increase the pension age further from 65 to 67;
* privatize the earnings-related benefit in the EPIP by introducing defined contribution plans such as the 401(k) plan type in the United States in fiscal 2000; and
* introduce a "pure PAYG system."

Experts have argued the following:

* establishment of "the Rule of the Law" and the abolition of the rule of arbitrary government regulations and rules, not only in state pensions but also in private pensions;
* establishment of "Pension Governance," and promotion of democracy, disclosure and efficiency in pension management fields. More sweeping reform of the government system is needed. People are eager to abolish the greater power of the government without responsibility;
* quick establishment of better policies for improving social, economic and employment conditions for people, particularly for women to raise the birthrate by decreasing costs for housing and education, by decreasing longer working hours and by improving child benefit programs;
* unification of employees' pension to only one program. Employees in public sector have enjoyed unfairly better state pensions than employees in private sector with bigger subsidies from central and local governments.
* early enactment of an anti-age-discrimination law and the abolition of the traditional mandatory retirement system. Today the mandatory retirement schemes at age 60 are very popular. But the government in 1994 amended the pension age at 65 for the EPIP and intends to increase it to 67 in a 1999 amendment. Even in the ageing society, many people are eager to work until age 65 and older. By increasing the number of elderly workers, the heavier financial burden of state pensions would be greatly improved and they would enjoy their lives very much;
* introduction of a rigid income test for richer elderly people and a generous and less strict income test for working elderly people;
* exclusion of political risks in recalculating and revaluing of pensions. Establishment of the independence of the actuarial section of the government from of the Health and Welfare Department as in the United Kingdom;
* abolition of the unfair contracting-out of the EPIP. Year by year, there are many large employers who dislike the contracting-out. Because they are going to not be able to enjoy the rebate rate by ageing of their employees

* strengthening of people's trust in the state pension system. It would be necessary for the government to declare to people correctly that the finance system of state pensions has been a PAYG system in reality. Regardless of the PAYG system in reality, by drastic demographic changes and indexation of pensions, the government has persuaded people by saying simply that state pensions have been financed not by PAYG but by the "partial-funding system. " So almost all Japanese have believed incorrectly that their higher contributions have financed a greater portion of their own state pension benefits. So they cannot understand why their pensions would be decreased so much regardless of higher contributions, and people have come to distrust state pension system;
* establishment of efficient investment system for current huge state pension funds with strict fiduciary responsibilities to exclude political risks and poor management; and
* establishment of better tax system for the ageing society. Experts criticize greatly the new tax policy of the government that intends to make rigid limitations on the current tax deductions for pension benefits and for contributions to private pensions.
* establishment of better accounting rules for pensions. Even today, the assets' valuation rule is not the fair-market-value rule but the book-value rule. So in reality, state pensions are bankrupt; and
* decreasing of unrealistic discount rate of 5.5 percent and introduction of more flexible discount rate to reflect changes in financial markets.

B. Occupational Pensions

Occupational pension benefits in Japan are driven by the following factors:
* lesser help from children, because of greater changes in traditional family systems
* current state benefits are not sufficient to maintain better standards of living after retirement, and
* as the population ages, there would be great possibility that state benefits will be decreased substantially in the near future.

1. Form

Non-state retirement benefits are provided mainly from private pensions, including occupational pension plans and personal pension plans. Only one occupational pension-plan (EPFP) may contract-out of EPIP. Almost all occupational pension plans operate on a defined benefit basis. Only the smaller plans operate on the defined contribution basis. The different types of pension plans are as follows:
* book reserve (unfunded severance benefit) plan (BRP);
* employees' pension fund plan (EPFP);
* tax qualified pension plan (TQPP);
* smaller employers' retirement allowance mutual aid plan (SERAMAP);

* employees' property-accumulating pension plan (EPAPP);
* national pension fund plan (NPFP) for the self-employed.

(March 1996)	Number of Plans	Number of Members	Amount of Assets
BRPs	—	—	¥13.6 trillion
EPFPs	1873	12.1 million	¥41.8 trillion
TQPPs	91,465	10.8 million	¥17.8 trillion
EPAPPs	3,200,000	3.2 million	¥4.2 trillion
SERAMAPs	405,120	2.8 million	¥2.8 trillion
NPFPs	72	0.8 million	¥0.6 trillion

Almost all employees enjoy BRPs and about 50 percent of employees enjoy EPFPs and/or TQPPs today.

The book reserve plan (BRP) is the traditional unfunded retirement plan and provides a lump-sum severance benefit at retirement. Prior to 1962, all occupational pension benefits were paid as unfunded lump-sum severance benefits. BRPs provided only some portion of the money and employers must borrow the rest from banks. Since the employees' pension fund plan (EPFP) and the tax qualified pension plan (TQPP) were introduced in 1966 and 1962, respectively, there has been a trend toward replacing BRP with funded defined benefit plans to take advantage of favorable tax treatment and to decrease unfunded heavier costs to employers.

Research of publicly traded companies in stock markets in Japan in March 1997 revealed that 4.7 percent of all employers pay only the lump-sum severance benefits to their employees, and 95.3 percent use BRPs and occupational pension plans. In March 1986, this was 18.4 percent and 81.6 percent, respectively. The average lump-sum severance benefit at the mandatory retirement age was ¥24 million for an employee with a university education, and ¥20 million for an employee with a high-school education. Almost all employers have made all or some portion of the benefits into monthly pension benefits by enjoying occupational pensions. In occupational pension contracts, 58.5 percent of EPFPs admit freely the lump-sum benefits and almost all TQPPs admit freely the lump-sum benefits. 52.9 percent of employers have established TQPPs, 19.5 percent have established EPFPs and 24.4 percent have established both. The average monthly occupational pension benefits are ¥150,000 for an employee with a university education and ¥115,000 for an employee with a high-school education. As for the monthly benefits of EPFPs, ¥150,000 and over was 53.9 percent, ¥200,000 and over was 15.4 percent and ¥250,000 and over was 7.7 percent. As for the monthly benefits of TQPPs, ¥125,000 and over was 55.2 percent, ¥150,000 and over was 41.4 percent, ¥200,000 and over was 22.4 percent and ¥250,000 and over was 10.3 percent. All

EPFPs pay the life-time pensions but almost all TQPPs pay the 10 years-certain pensions.

The employees' pension fund plan (EPFP) is the major type of occupational pension plan, introduced in 1966 to pay earnings-related benefits. It is used mainly by employers with 500 workers and over, with the approval of the Ministry of Health and Welfare and the Ministry of Finance, and can be used to contract-out of the earnings-related part of the employees' pension insurance program (EPIP) in return for lower social security contributions with the rebate rate. It is required by law to be established as a legal entity independent from the employer and to pay an earnings-related life annuity that is at least 30 percent greater than the benefit from the earnings-related part of the EPIP. Amendments of March 1996 changed the rebate rate from 3.5 percent to 3.2 percent to 3.8 percent from April 1996. Research in April 1997 revealed the distribution of the rebate rate is as follows: the rebate rate of 3.2 percent was enjoyed by 18.3 percent of all EPFPs, 3.3 percent by 10.0 percent, 3.4 percent by 12.1 percent, 3.5 percent by 13.3 percent, 3.6 percent by 13.3 percent, 3.7 percent by 11.0 percent, and 3.8 percent by 22.1 percent. By ageing of employees, 40.4 percent of all EPFPs enjoyed the rebate rate of only under 3.5 percent.

The tax qualified pension plan (TQPP) was introduced in 1962 to pay earnings-related benefits. It is used mainly by medium-size or smaller employers with 15 workers and over, with the approval of the Ministry of Finance, and it cannot be used to contract-out. But some major companies like Sin-Nippon Steel Co., with 27,000 employees enjoy TQPPs. Annuities are normally payable for 10 years certain but workers usually elect to take lump-sum benefits at retirement because of the preferential tax treatment.

Personal pension plans cannot be used to contract-out of EPIP or of the national pension program (NPP).

Defined contribution plans have a relatively short history and are less popular. Employees have traditionally enjoyed defined benefits plans only with employers' contributions. But the employees' property-accumulating pension plan (EPAPP) is a defined contribution plan for employees and the smaller employers' retirement allowance mutual aid plan (SERAMAP) is a defined contribution plan for employees of smaller companies. The national pension fund plan (NPFP) is a defined contribution plan for the self-employed.

2. When Payable

The main employment relationships in Japan have been based on life-time employment, seniority-based salaries and mandatory retirement systems. The mandatory retirement age is usually 60 and benefits from occupational pension plans are normally paid from the same age.

Because of changes in labor markets, the life-time employment and seniority-based salary systems have been losing their strength. In spite of entering into an ageing society, Japan has not enacted an anti-age-discrimination law. With a stagnant economy and lower rate of union membership, from the early '90s many employers have been very eager to introduce an early retirement system even from age 40 with some additional retirement benefits.

3. How financed and managed

All tax approved occupational pension plans and personal pensions are funded in advance. Most are operated by life insurance companies and by trust banks. Almost all occupational pension plans are financed by employer contributions only. TQPPs with between 15 and 100 members must be funded with life insurance companies. TQPPs with 100 or more members must be funded with life insurance companies and/or trust banks. From October 1997, TQPPs can be funded with investment management companies. EPFPs can be funded with life insurance companies, trust banks and/or investment management companies.

In spite of bigger pension funds, only EPFP enjoys the "voluntary"-based pension benefit guarantee system that was established in 1988 with higher contributions and with poor sufficient guaranteed levels. A compulsory pension insurance system should be established. BRP and TQPP have not such system even in the age of many employers' bankruptcies and of many plan terminations. The nationwide or industry wide occupational pension systems should be introduced in the age of a weaker economy and ageing society. Japan has not enacted a private pension law like the ERISA in the United States and the PSVaG in Germany.

In March 1996, there were 817 EPFPs with pension funds of more than ¥10 billion, 156 EPFPs with more than ¥50 billion, and 65 EPFPs with ¥100 billion.

4. How invested

BRP assets are used by employers as working capital or capital investment. TQPP and EPFP assets are invested with life insurance companies, trust banks and/or investment management companies. EPFPs with pension funds of more than ¥50 billion can use in-house investment managers, with the approval of the Ministry of Health and Welfare. In April 1998, this limitation of ¥50 billion was repealed. In investing EPFP assets, trust banks were subject to the 5-3-3-2 rule, under which more than 50 percent of the assets are invested in low-risk investments, less than 30 percent are invested in stocks, less than 30 percent in foreign-currency-dominated assets and less than 20 percent in property. This 5-3-3-2 rule was repealed in December 1997. As for investment of TQPP assets, this 5-3-3-2 rule was repealed in March 1997.

In investing EPFP and TQPP assets, life insurance companies are subject to the 3-3-2 rule by the Insurance Business Law, under which less than 30 percent of assets are invested in stocks, less than 30 percent in foreign-currency-dominated assets and less than 20 percent in property. The yield on the benchmark No. 182 government bond, carrying a three percent coupon and due in 2005, has been below two percent since September 1997. The life insurance industry has guaranteed the lowest level of 2.5 percent for its investment and it has had huge losses, so there is certainly the possibility that it must lower the guaranteed rate more in the near future to avoid bankruptcy.

From April 1997, some liberalization of the unrealistic 5.5 percent discount rate of the EPFP was introduced but there is the lowest limitation of 4.0 percent for fiscal 1997. It will be decreased to 3.5 percent for fiscal 1998. A partial fair market evaluation rule for pension accountings was introduced from fiscal 1997. The average yield of EPFPs was 2.7 percent, the lowest level, at the end of March 1997 and the Nikkei Index (Tokyo Stock Market) fell greatly from about ¥40,000 in December 1989 to below ¥16,000 in December 1997.

Almost all the EPFPs have had realized or unrealized greater unfunded obligations. In March 1996, even under the book value rule, 41.4 percent of total EPFPs have suffered underfunding. Curiously, almost all sponsoring employers do not change the discount rate of 5.5 percent even after the insufficient liberalization of the rigid discount rate. Not only the government but also employers do not want to accept the reality, because they must bear the responsibility for the mismanagement of the EPFP system and they must put more funds into EPFPs to correct underfunding. The Private Pension Law should be enacted quickly to establish stricter fiduciary responsibilities to protect vested rights of employees. And better accounting rules for pensions should be established as soon as possible. 714 EPFPs have built and managed unprofitable hotels, which huge financial burdens to them.

5. Legal Structures and Constraints

To qualify for favorable tax treatment, occupational pension plans must be set up in accordance with the relevant laws and regulations. The main sources of regulations for tax-approved occupational plans and personal pensions are as follows:

* employees' pension insurance law;
* corporate tax law;
* banking business law;
* insurance business law;
* regulations and rules of the government or departments of the government.

Almost all occupational pensions are governed strictly not by law but by ministerial regulations and rules of the Department of Finance and the Department of Health and Welfare. There are only a few laws relating directly to pension governance to establish democracy and efficiency, and to protect vested rights. In spite of the large scale of pension assets, there is no occupational pension law, such as the ERISA in the United States, and few regulations relating to fiduciary responsibility and disclosure. Few accounting rules are established for private pensions, such as the fair market value rule for the valuation of huge pension assets. Vested rights of individual members have little protection. There has been no move to unify pension regulations and rules of several departments of the government, and several ministries have set their own rules without harmonization. Although there are a large number of occupational plans, the regulatory system is unsatisfactory. Only the EPFP enjoys a legal entity independent from employers. Other occupational pensions cannot enjoy a legal entity independent of employers. The weaker economy has caused the highest level of corporate bankruptcies, which have resulted in terminations or heavy underfunding for many occupational pensions. There have been greater calls for the enactment of a private pension law, including establishment of a better pension guarantee system for private pensions, like the PBGC in the United States and the PSVaG in Germany.

EPFPs are subject to the following regulations:

* the EPFP must be established solely to provide retirement income security for the members and beneficiaries;
* the employer must have made a profit for each of the preceding three years;
* at least half of the company's full-time employees must vote in favor of establishing the plan;
* if a labor union represents at least one-third of the employees, it must approve the establishment of the plan by a majority vote;
* employers must have had a stable or growing labor force for the preceding three years;
* for a single-employer EPFP, there must be at least 500 full-time employees;
* for an allied-employer EPFP, there must be at least 800 full-time employees (a controlled group of employers must have substantially the same ownership);
* for a multiemployer EPFP, there must be at least 3,000 full-time employees (a group of smaller employers in the same industry or in the same region can establish a EPFP);
* the plan must comply with regulations relating to equal treatment for men and women, and minimum funding requirements.

In March 1996, there were 1,873 EPFPs. There were 569 single-employer plans, 659 allied-employers plans and 645 multiemployers plans. In April 1997, the distribution of the rebate rate is as follows:

There are similar regulations for TQPPs but they are not as rigid as those applicable to EPFPs. There is no pension benefit guarantee system. A TQPP with less than 500 members, which pays benefits at least 30 percent greater than the benefits from the earnings-related part of EPIP, can apply for favorable tax treatment as a special TQPP with the approval of the Ministry of Health and Welfare.

The abolition of investment regulations without the enactment of fiduciary responsibility will harm the vested rights of employees.

6. Tax Treatment (October 1997)

Japanese tax systems for occupational pensions are the ETT system, which means that contributions are tax free, assets returns to be accumulated are taxed and benefits are taxed. Tax approved occupational plans enjoy the following tax relief:

* the BRP contribution by the employer is deductible, up to a limit of 40 percent of the aggregate accrued liability for voluntary severance lump-sum benefits. But this preferable tax limitation was decreased to 20 percent in 1988;
* all contributions to EPFPs or TQPPs by employers are allowed as an expense against profits;
* SERAMAP contributions by employers are deductible, up to the limit of ¥20,000 monthly for each employee:
* the EPAPP matching-contribution by an employer is deductible;
* the EPFP contribution by an employee is deductible as a social security contribution;
* the TQPP contribution by an employee is deductible as a life insurance premium, up to the limit of ¥50,000. The government intends to decrease or eliminate this treatment in the near future
* an EPAPP contribution by an employee is deductible;
* a personal pension contribution by an employee is deductible as a life insurance premium or a personal pension premium, up to the limit of ¥50,000. The government intends to limit or to abolish this tax treatment;
* the assets and capital gains on EPFP and TQPP must be subject to special corporation tax of 1.175 percent. This tax treatment is very severe to smaller employees. In fiscal 1996, EPFP paid ¥2.2 billion but TQPP paid ¥200 billion;
*an annuity from an EPFP is subject to the same tax as social security benefits;
* an annuity from a TQPP is subject to the same tax as an EPFP, after deducting an amount equal to the employee's contribution;
* an annuity from a SERAMAP or a personal pension is subject the same tax as an annuity from a TQPP;

* an annuity from an EPAPP is tax free, up to a limit of ¥5 million of the total amount of contributions and earned incomes;
* a lump-sum death benefit from an EPFP is free of income tax and inheritance tax;
* a lump-sum death benefit from a TQPP is free of inheritance tax but subject to income tax;
* a lump-sum retirement benefit from a BRP, EPFP or TAPP is subject to income tax, but on a favorable basis: the taxable income is equal to one-half of the lump-sum benefit less the deductible amount, as follows:

Taxation of Lump-Sum Retirement Benefit (October 1997)	
Years of service	Amount Deductible
Less than 20	¥0.4 million times years of service
20 or more	¥800 million, plus ¥0.4 million times years of service

The taxable income amount = (lump-sum benefit - deduction amount) times 1/2.

This tax treatment is far more favorable for employees to enjoy the lump-sum severance benefit than monthly pensions, and many employees have preferred to take lump-sum retirement benefits from occupational pensions, particularly from TQPPs. Japan has not enacted tax laws that prepare for the ageing society of the 21st century.

7. Survivors' benefits

All defined benefit and defined contribution occupational plans provide a lump-sum death benefit. EPFPs usually pay a spouse's pension instead of the lump-sum death benefit.

8. Differences In Approach

(1) Small and Medium-size Employers

Almost all small and medium-size companies operate a book reserve plan (BRP). Some of them provide all or some of the following arrangements in addition:
* an employees' property-accumulating pension plan (EPAPP).
* a TQPP;
* an allied-employer or multiemployer EPFP.

For small and medium-size employers, a TQPP is the most common plan.

(2) Large Employers

Almost all larger employers provide all or some of the following arrangements:
* a book reserve plan (BRP);
* an employees' property-accumulating pension plan (EPAPP);
* a TQPP;
* a single-employer or an allied-employer EPFP. The EPFP is the most common plan.

(3) Multinational Corporations

Multinational corporations tend to adopt all or some of the following arrangements:

* a defined benefit plan;
* a defined contribution plan;
* a group personal pension plan.

9. The Insurance Markets

The insurance and trust market is highly developed and regulated, although there is no law to protect vested rights of employees. There are 44 life insurance companies, most of which are mutuals. There are 63 non-life insurance companies and 34 trust banks.

In April 1997, Nissan Mutual Life Insurance Co. went bankrupt - the first insurance company to fall since the end of World War II - and vested benefits of personal pensions were cut to 30 percent. Toho life Insurance Co., which has guaranteed higher yield rate, just asked for help from GE Capital Services Co. to avoid imminent collapse. Yamaichi Security Co. and Hokkaido Takusyoku Bank went bankrupt in November 1997.

After the collapse of the bubble economy in the early 1990s, the Japanese financial industry has lost its vitality because of decreasing prices of land and stocks, and of increasing huge bad loans. The life insurance industry has suffered additional burdens from higher guaranteed yield rates to policyholders: 2.5 percent for occupational pensions, 2.75 percent for personnel pensions and 2.25 percent for endowment policies.

In 1997, more than 26,000 employers went bankrupt, with the highest debts of ¥14 trillion, and more than 138,000 employees lost their jobs. In fiscal 1997, the real GDP growth rate will decrease to 0.7 percent, the first time of under 0.0 percent since fiscal 1974 when the oil shock attacked Japanese economy. Even many larger occupational pensions are going to terminations or bigger under funding.

The government intends to pump ¥30 trillion of public into the banking industry, including trust banks, to avoid the collapse of the financial system, and it intends to establish a Guarantee Fund for the rights of policyholders in life and non-life insurance industries. The government intends to introduce the Fair Market Value Rule for land assets held by the financial industry. It also intends to introduce the Book Value Evaluation Rule to the assets of securities that are held by the financial industry with greater oppositions even from some excellent companies in the industry.

10. The Investment Market

Personal pension funds are invested mainly by life insurance companies, trust banks, commercial banks and security companies. Occupational pension plans generally use external managers, such as life insurance companies, trust banks and/or investment management companies, not only for administrative and actuarial services but also for pension fund investments. Larger EPFPs use investment management companies and in-house managers, with the approval of the Ministry of Health and Welfare.

As for the market share in EPFPs assets, trust banks was 55 percent, life insurance industry was 35 percent and investment management companies was 10 percent at the end of March 1997. The market share in TQPPs assets was 41 and 58 percent, respectively. Because of poor financial markets, the life insurance industry decreased its guaranteed rates for pension funds from 5.5 percent to 2.5 percent in April 1996. The market share of the life insurance industry has been decreasing. Many occupational pension plans have transferred pension fund assets from life insurance companies to trust banks and investment management companies.

Contrary to greater changes of interest rates in financial markets, the discount rates of EPFPs and TQPPs had been maintained rigidly at 5.5 percent for several decades. The average real rate of investment return on EPFP and TQPP assets in 1996 was 2.7 percent, making the average rate less than the discount rate (5.5 percent) for five successive years. So many employers have large unfunded obligations to be met in the near future. Some liberalization was introduced in the discount rate of EPFP from April 1997. But almost all EPFPs have not changed the discount rate of 5.5 percent. Because employers do not want to accept the reality of the situation and do not want to find huge amounts of money to correct under funding.

Because of economic stagnation, changes in industrial structures and international competition, the number of EPFP terminations has been increasing: one in 1994, one in 1995, seven in 1996 and five up to October 1997. There are many underfunded EPFPs. There are no figures for TQPPs, but there are thought to have been many terminations and underfunded TQPPs. The Employees' Pension Fund Association (EPFA), a special government body, which is responsible for winding-up the Japan Textile EPFP, cut 60 percent of members' guaranteed pension benefits in 1996, which resulted in a greater loss of people's confidence in EPFPs generally. TQPPs have no guarantee system.

Because of employers' large unfunded obligations to EPFPs and TQPPs, many employers are eager to introduce defined contribution plans instead of defined benefits plans, transferring the investment risk from employers to employees.

11. Likely Evolution of Pension Reserves

Because of the ageing population and large budget deficits, the government intends to decrease the state pension benefits in the 1999 amendment.

Amount of Assets of Occupational Pensions and Personal Pensions (Trillion Yen) (March 1996)					
	EPFP	TQPP	EPAPP	SERAMAP	Personal Pensions
Amount	¥41.8	¥17.8	¥4.2	¥2.8	¥102.2

Amount of EPPP and TQPP (Trillion Yen)					
	March 1980	March 1985	March 1990	March 1995	March 1997
EPFP	4.1	10.7	22.5	38.4	45.0
TQPP	2.5	6.2	11.9	17.0	18.5
Total	6.5	16.9	34.3	55.4	64.4

External Investment Managers of EPFP and TQPP: Assets (Trillion Yen and Percentages) (March 1997)			
	EPFP	TQPP	Total
Trust Banks	24.7 (54.9%)	7.5 (40.8%)	32.2 (50.8%)
Investment Management Co.	4.6 (10.2%)	—	4.6 (7.2%)
Life Insurance Companies	15.7 (34.9%)	10.8 (58.3%)	26.5 (41.7%)
Agricultural Mutual Aid	— (—)	0.2 (0.9%)	0.2 (0.3%)
Total	45.0 (100.0%)	18.5 (100.0%)	63.4 (40.8%)

Allocation of EPFP Assets (March 1996)						
	Equities	Bonds	Foreign Equities	Lending	Cash	Total
Allocation	27.5%	45.4%	17.5%	8.4%	1.2%	100.0 %

Allocation of Assets of Life Insurance Industry (March 1997)							
	Equities	Bonds	Foreign Equities and Bonds	Lending	Real Property	Cash, etc.	Total
Allocation	16.9%	23.3%	10.4%	34.6%	5.2%	9.5%	100.0 %

The reduction in state benefits is expected to lead to significant increases in the amount of non-state pension reserves, particularly occupational pension reserves. And Japanese people have more than ¥1,223 trillion of personal financial assets in 1997, of which 57 percent are deposits and savings. Early in next century, the occupational pension reserves will reach ¥300 trillion to provide better retirement incomes to people. To provide fair occupational pensions to all employees in all sectors, experts argue that the state pension of public employees should be divided into two portions of (a) the pure state pension and (b) the occupational pension, and that the unification of the pure state pension in one pension for all employees and the privatization of the portion of the occupational pension for public employees should be privatized. Public employees enjoy unfairly the better pensions not only in the state pension but also in occupational pensions with favorable subsidies from the central and local governments. The contracting-out of EPFP should be abolished. The only reason why the two same defined benefit plans, EPFPs and TQPs, are established separately is because of the problems of the distribution of government powers. The Department of Health and Welfare has governed the former and the Department of Finance has governed the latter. EPFPs and TQPs should be re-established to provide better pensions to employees in small, medium and large employers with the enactment of a private pension law and tax laws, and the establishment of better pension accounting rules. New flexible defined contribution plans should be established as supplementary plans in large and medium-sized companies, and as main plans in small companies.

12. Trends in Benefits Provision

The government does not intend to eliminate the contracting-out of EPFPs. It intends to introduce defined contribution plans, such as 401(k) plans in the United States, and to privatize the earnings-related benefits of the EPIP. A number of employers, including some large companies, intend to transfer the investment risk of their occupational pension plans to employees, with a move away from defined benefit plans to defined contribution plans. This reflects changes in the labor markets, changes in financial markets and the increased stricter regulations applicable to defined benefit plans.

The government intends to abolish or limit the tax treatments of BRPs in the near future to increase tax income for the following reasons:

*more than 80 percent of BRP reserves relate to larger employers, and many larger employers operate EPFPs and TQPPs in addition to BRPs;

* annuities are preferable to lump-sum benefits as the basis of retirement income security in an ageing society.

The elimination of BRPs will result in greater popularity of EPFPs, TQPPs and/or personal pensions.

Japanese people have personal financial assets of more than ¥1,200 trillion. Only a small amount of this money has been invested in occupational pensions and/or personal pensions, but considerable sums would be invested in occupational pensions and/or personal pensions in the near future, because Japan is rapidly becoming an ageing society.

Statistical Aspects

Recent Labor Economy Indices

	May 1998	April 1998	Change from previous year
Labor force	6,891 (10 thousand)	6,822 (10 thousand)	15 (10 thousand)
Employed	6,597	6,532	35
Employees	5,372	5,351	27
Unemployed	293	290	49
Unemployment rate	4.3%	4.3%	0.8
Active opening rate	0.53	0.55	0.02
Total hours worked	150.2 (hours)	162.6 (hours)	3.8
Total wages of regular employees	(¥thousand) 269.1	(¥thousand) 271.3	0.0

Note: *denotes annual percent change.
Source: Management and Coordination Agency, Ministry of Labour.

Statistical Aspects for Web Site

Economy Planning Agency
http://www.epa.go.jp/html/monthly.html
- Employment Situation
- Balance of Payments

Management and Coordination Agency,
Statistics Bureau & Statistics Center
http://www.stat.go.jp/1611c.htm
- Growth of Population and Future Population
- Key Indicators on Employment
- Labor Force Status
- Unemployment Rates
- Employment Persons by Industry
- Employed Persons by Occupation
- Wages — Average Monthly Cash Earnings per Regular Employee by Industry
- Working Hours — Average Annual Hours Worked per Regular Employee by Industry
- Economic Conditions

Ministry of Labor
http://www.mol.go.jp/english/outline/fgr-tbl/index.htm
- Changes in Number of Part-time Workers (Non-agricultural Industries)
- Changes in Total Annual Real Working Hours per Worker
- Changes in the Number of Deaths and Injuries Caused by Industrial Accidents
- Changes in the Number of Employees (all Industries)
- Incidence of Disputes
- Number of Members in Major Labor Unions
- Occupational Abilities Development for Older Persons
- Outline of Employment Measures for Older Persons
- Ratio of Married Woman to Total Women Employees