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General Survey

Huge Drop in Household Income in 1999

According to the *Comprehensive Survey of Living Conditions of the People on Health and Welfare* conducted by the Ministry of Health, Labour and Welfare, the average income per household in 1999 was ¥6.26 million, a drop of ¥292,000 or 4.5 percent from the previous year. This was the largest drop in household income since data of this kind has been obtained through the survey.

This survey is designed to obtain basic information on the standard of living of Japanese citizens. It covers various areas including income, health, medical, welfare, pensions, and is used by the ministry for its administrative planning. While the survey is conducted annually, it is implemented on an expanded scale every third year. This year's survey was on an ordinary scale, and covered the basic areas concerning income and other matters. It was administered to all households and household members in 500 areas which had been selected from 1,048 areas chosen by using a stratified random sample based on the 1995 Population Census. A total of 10,189 households were approached with 8,375 usable responses.

The data was analyzed in terms of income quartiles based on household income. Households in the lowest quartile earned less than ¥2.80 million. Those in the next quartile earned ¥2.80 to ¥5.06 million. Those in the highest two quartiles earned ¥5.06 to ¥8.29 million and over ¥8.29 million. Average income in each of the four quartiles was ¥1.65 million, ¥3.87 million, ¥6.53 million, and ¥12.99 million respectively. The average fell from the previous year for each group. The drop was largest for the lowest quartile (8.3%) and 9.1 percent in the second lowest quartile.

In terms of age of heads of households, 41.8 percent of the households whose head was 29 or younger, and 40.9 percent of those with heads 65 or over fell within the lowest income quartile. On the other hand, 42.0 percent of households whose heads were 50 to 59 years old, and 33.3 percent of those whose heads were 40 to 49 belonged to the top quartile. Income from gainful employment and from pensions contributed 41.4 percent and 45.5 percent, respectively, to the total income of those in the lowest quartile, whereas income generated by gainful employment accounted for 88.3 percent of the total income of those in the richest quartile. The average income per household was ¥3.38 million for households whose heads were younger than 30, and ¥5.10 million for those whose heads were 65 or older. Among households in the top quartile, heads of households aged 50 to 59 earned an average income of ¥8.19 million.

Just over half (50.7%) of those questioned felt that their finances were “very tight” or “rather tight,” a drop of 1.8 percentage points from the previous year. The proportion of respondents answering in that way has been over 50 percent in each of the past three years. A slightly higher proportion of households with a child(ren) 18 years old and younger (56.1% of such households) experienced financial difficulties.

Human Resources Management

NPA Seeks to Increase the Number of Women in Civil Service

The National Personnel Authority (NPA) conducted a *Survey of Views concerning the Recruitment and Hiring of Female National Civil Servants*. The survey targeted female employees in the civil service (some 800), male and female managers (*kakaricho* [section chief] level and higher, some 800), and former female employees who had retired before the age of 50 during fiscal 1999 (some 540). According to its findings, 70.5 percent of the respondents in managerial posts indicated their view that it is easier for women to work in the public sector, given the working conditions. That compared with 39.4 and 36.7 respectively for females currently in the service and for those who had retired. As for why the ability of females in the service was not fully utilized, the majority of respondents pointed to “the lack of training designed to meet individual abilities and aptitudes.” At the same time, while 47.4 percent of managers felt that “female employees lack the determination necessary to develop their own abilities” and 42.7 percent felt that “the follow-up system was insufficient for women who take maternity leave,” 50.1 percent of the female civil servants felt there were insufficient linkages between ability and performance, on the one hand, and promotion and wage levels on the other; 48.5 percent also felt that personnel management and managers were unwilling to utilize the abilities of their female co-workers.

Following up on the survey, the NPA drafted guidelines to promote the recruitment of females in the national civil service, and distributed these to the ministries and other government offices. The guidelines oblige those bodies to establish within this year their own plan to expand their recruitment and hiring of female staff. They are also to set targets for the proportion of females among successful candidates in recruitment examinations as well as in terms of the composition of their labor force overall. The ministry is encouraging all facets of government to come up with plans which will achieve those goals and to allocate staff to become engaged in that planning. The guidelines also call for improvements in the workplace which will satisfy both men and women, such as expansion of child-care leave systems and employment of additional staff to cover for those who are absent on such leave.

The NPA has decided to hold regular meetings in order to promote this expansion in the recruitment and hiring of female staff. It sees the meetings as providing a place for the exchange of information among personnel involved in these matters. It plans to make public its plans and to report on progress made in each of the individual ministries and offices, together with details of actual cases of recruiting and hiring female personnel.

In fiscal 2001, the percentage of all newly hired national civil servants who were female was still small: 15.4 percent of those who passed the Level I examinations (i.e., those qualifying to become career civil servants), 24.3 percent of those who passed the Level II examinations (i.e., those who were destined for the non-career, middle management civil service), and 34.9 percent of those who passed the Level III examinations, (i.e., to become non-career civil servants). The Basic Plan for a Gender-equal Society approved by the Cabinet in December 2000 provided for the creation of guidelines and for the systematic recruitment and hiring of women into the service.

Labor-Management Relations

Increased Participants?: Rengo Holds May Day in April

This year labor unions affiliated with Rengo (Japanese Trade Union Confederation) celebrated May Day on Saturday, April 28. In the past it has usually been celebrated on May 1. With many workers facing increasingly hard times, the unions are attempting to attract more participants to this rally with the aim of heightening worker solidarity. However, other considerations were also involved in the decision to change the day for this year's May Day rally.

The Upper House election scheduled in July gave this year's May Day a strong political flavor. Although May Day normally occurs in a festive atmosphere, with stalls selling food and drinks and various performances, this time such joyous activities were not planned. Instead, for the first time in three years there was a march after the ceremony. In this regard, the unions seem to have reverted to the original concept of May Day.

Because May 1 is not a public holiday in Japan, the majority of workers had to work that day (unless they took a day off for union activities). Yet another consideration was the fact that May 1 this year fell in the middle of "Golden Week," Japan's string of several holidays which results in many workers taking a few extra days off for an extended weekend. This year the national holidays fell on April 29, May 3 and May 5. Coupled with the "bridging day" on May 4, the weekend before and annual leave on May 1 and 2 employees could string together

nine successive days off. In Japan where, unlike in various other countries, it is not customary (though not impossible) to take long vacations, this year's Golden Week – along with the *Bon* Festival period in mid-August and the New Year period – provides workers with a good opportunity to have a long vacation.

Given the situation this year, union leaders feared that the number of participants in the May Day rally would be considerably fewer if it were held on May 1. Accordingly, they decided to shift the observance of May Day to the first day of this year's Golden Week.

The idea of celebrating May Day on April 28 met with the approval of some union members on the grounds that it was one way to attract some of the younger unionists who wished to have a long holiday for travel or the like. It was felt that the larger the number of participants, the more likely that the day's activities would have a strong impact on employers. Others objected to the political atmosphere of this year's celebrations. They felt that May Day should be celebrated in the same way as in the past, with all kinds of people including workers and their families participating. Still others held the view that the low level of participation in May Day activities during the long holiday would be a good measure of the union leadership. They argued that the *raison d'être* of the labor movement has been called into question and that leaders should be held responsible for that state of affairs. Those with this view tended to feel that May Day should be celebrated on May 1. In this regard, it is interesting to note that unions affiliated with Zenroren (National Confederation of Trade Unions) held their celebrations as usual on May 1.

How many people actually attended the rally? The number totalled some 23,900, 12,000 fewer than that reported for last year's rally which was held on May 1. The conclusion seems to be that bringing forward the ceremony to avoid interfering with the long holiday had no positive effect on the numbers participating. Rather, it served only to underline how much the influence of the unions had declined. Without a fundamental reconsideration of their *raison d'être*, unions are likely to find it difficult to attract more workers to the May Day activities in the future. There is some way to go before unions can say their influence in society is on the increase.

Public Policy

New Approach to Promote Employment for the Disabled

May 2001 saw an interesting development with regard to the employment of the disabled. On the 17th, Japan Airlines (a leading airline with about 18,000 employees) reached

agreement with two activist stockowners (sometimes called “shareholder ombudsmen,” although there is no official ombudsman system on behalf of shareholders in Japan). The two stockowners had claimed that the company's executives had been negligent in not meeting the legally required hiring rate for disabled people. Because the company had not met that target, it had to pay a fine or levy. The two shareholders argued that the company executives should be held responsible for the resulting loss.

Since 1976 an employment quota system has been the key mechanism used to promote the employment of the disabled. This was put into place by the Disabled Persons' Employment Promotion Law which obliges firms to employ a certain number of disabled workers in relation to their overall labor force. This quota is determined by the number of disabled people who wish to work and are able to do so. The proportion and the criteria defining such disabled people have changed over time. Currently, the quota requires that 1.8 percent of the employees in private firms be “people with a physical disability” or “people with a mental disability.”

As firms have to bear extra costs in accepting disabled people in the workplace, the Disabled Persons' Employment Promotion Law provides for a levy system as a way to adjust allowance for employing disabled people. Accordingly, firms that do not meet their quota are required to pay a levy determined in accordance with the extent of their short fall in not attaining their quota. Firms that employ more disabled workers than required by their quota are then given a subsidy in proportion to their over fulfillment. The amount of the levy is based on likely costs involved in hiring disabled workers, and at the moment is fixed at ¥50,000 per month per person for each person short of the targeted number for each firm.

In legal terms, the obligation to employ disabled workers and the levy system have different purposes. This means that firms are not exempt from the obligation to hire the required number of disabled workers even when they pay the levy. Nevertheless, the system has been criticized for allowing firms, particularly large firms, to deal with the matter simply by paying the levy and then forgetting about their obligation to hire disabled workers.

Until recently it has been common for Japan's larger companies to have a smaller proportion of disabled employees. However, this began to change in the mid-1990s. In 1991 the average proportion of disabled employees was 1.29 percent, 1.16 percent at firms with 1,000 or more employees and 1.52 percent at firms with 100 to 299 employees. In 2000, the average proportion stood at 1.49 to 1.55 percent for firms with 1,000 or more employees and at 1.40 percent for firms with 100 to 299 employees. Although it should be noted that 74.5 percent of Japan's large firms with 1,000 or more employees still do not meet their quota, an

increasing number that had previously shown little interested in employing the disabled are now more eager to hire such workers.

The settlement in the Japan Airlines case reportedly calls for the company to increase the proportion of disabled workers it hires until the national average is achieved, with a clear goal of attaining the legally set quota by the end of fiscal 2010. The company also agreed to mention the proportion of employees who were disabled employees on its homepage. In June 2001 that figure stood at 1.35 percent.

Reform of Corporate Pension Plans Gets Underway

Legislation concerning a new corporate pension plan with designated benefits has been enacted, and a proposed law on defined-contribution pensions is certain to be passed in the near future. With this legislation, reform of the system for corporate pension plans has at last begun.

In Japan today, the Employees' Pension Funds and the Tax-qualified Pension Plans are the two types of corporate pension. Both types define the pension benefit in advance. To set up the former type of fund (legislation enacted in 1966) a firm is legally required to have 500 or more employees. Therefore, this is the type of fund established by most large firms. Currently there are 1,800 such funds with 12 million subscribers. The Employees' Pension Funds are characterized by the fact that the retiree's benefits consist of a public pension component, a contribution from the Employees' Pension Scheme – a good bit of which is tied to a remuneration base – and an amount which comes from their own supplementary benefits. The Tax-qualified Pension Plans (which were established in line with legislation in 1962) are used largely by small and medium-sized enterprises. There are 80,000 such funds covering some 10 million workers.

A law on defined-benefit corporate pension plans was enacted in June 2001 and will come into effect in April 2002. It will result in the two types of pension funds now existing being reclassified into three types. The first new type will be the same as that presently existing for the Employees' Pension Funds. The second type will be called a “Reserve-fund Type Corporate Pension” and will be for workers now covered by the Employees' Pension Funds but without the portion of the payment now made on behalf of the Employees' Pension. The third type is a “Contract Type Corporate Pension” and is essentially a revised version of the Tax-qualified Pension Plan. The pension plans at present have no mechanism to ensure that their finances are audited. This has left the future payment of pension benefits a bit uncertain. The plans

under the current system will be abandoned within 10 years from the enactment of the new legislation. Of the three new schemes, the Reserve-fund Type Corporate Pension will result in new corporations being established to manage pension funds as was done for the existing Employees' Pension Funds. The Contract Type Corporate Pension depends on pension contracts between labor and management, and this type of fund is managed by a financial institutions endorsed by labor and management.

Legislation establishing the defined-benefit corporate pension plans clearly lay down the criteria for fund reserves in a way that gives priority to protecting the benefits of the recipients. In the future, funds will be required to keep their accounts in a transparent manner so that the future payment of benefits is guaranteed. Any shortage in funds, for example, will be covered by a temporary raise in the premiums. Also those covered by the funds will be kept informed of the state of the fund's reserves.

However, despite these safeguards, some observers believe that the legislation is inadequate with regard to the protection it provides for the payment of benefits. In fact, a scheme "to guarantee that pension benefits would be paid" by establishing a fund from which corporate pension funds could draw if they went bankrupt was not incorporated into the legislation due to objections from employers' associations. At the same time, the legislation also did not embody ways to ensure that the rights of recipients could be enforced.

Because the new legislation requires that the new funds are managed much more carefully according to more stringent guidelines, small and medium-sized enterprises that have in the past relied on the Tax-qualified Pension Scheme are likely to do one of two things. They will either do away with their corporate pension schemes as such or they will shift completely to the defined-contribution pension plan (which is explained in further detail below).

Another substantial change in the pension scheme frees corporate pension funds from having to play a role in the management of funds under the public pension plan (for the Employees' Pension Plans). Initially it was a great advantage for corporate funds to manage some of the public pension funds in that they were able to benefit from the interest that accrued from public pension fund reserves. However, when the interest rate fell lower than the expected interest rate, the corporate funds had to make up for the shortfall. This has been too great a burden for firms under the current regime of ultra-low interest rates, and those involved had for some time pushed for the revision of the law. In line with the latest measures, Hitachi Ltd., Toyota Motor Corp., Kao Corp. and Nihon Unisys Corp. have already announced their intention to give up their role in managing portions of the public pension funds. Quite a

few companies are expected to follow their lead. (Incidentally, the law frees corporate funds from the management of public pension funds not only in terms of cash reserves but also in regard to the management of stock portfolios.)

At the same time, a proposed law on defined-contribution pensions was enacted in June 2001 and will come into effect in October 2001. If companies have already joined a defined-benefit corporate pension plan and wish to have a defined contribution pension plan, they will be able to set the premium per person up to a maximum ¥18,000 per month. Under the new arrangements companies will also be allowed to shift part of their fund reserves for the defined-benefit pension plan to a defined-contribution plan. In the latter pension scheme, firms choose a financial institution to manage their pension funds, and the institution offers three or more pension packages to employees (who will be able to choose freely among them). Individual employees are given their own account and can check the state of the accounts themselves. Benefit payments start in principle at age 60.

The defined-contribution pension plans are attractive to firms because they do not require the firm to make up for later shortfalls in their ability to pay benefits. When the array of legislation planned for the defined-benefit and the defined-contribution pension plans is fully in place, it will be possible for firms to establish their own pension plans in ways that will combine both pension plans. However, Rengo (the largest national labor center) is reserving judgment on the adoption of the defined-contribution pension plans, saying they will make individual workers bear the whole risk of fund management.

Special Topic

The Impact of the New Accounting Standard on Japanese Corporate Pension Plans

Aishi Imafuku
Professor
College of Economics
Nihon University



1.0 Retirement Benefits Plans and Accounting Standards for Retirement Benefits

The establishment in June 1998 of accounting standards for retirement benefits (ASRB) in Japan was regarded as part of a “Big Bang” that represented Japan's economic transformation. Together with accounting standards for consolidated financial statements

and financial instruments, this brought the standard into line with the equivalent global standards. In the less than two years between the discussion paper on accounting for retirement benefits and the final decision, the accounting standard was set up on a basis almost identical to the International Accounting Standards (IAS) No. 19, "Employees' Benefits." The standard became operative for financial periods beginning on or after April 1, 2000.

The process of standard-setting in Japan referred to above is quite different from that in the UK, for example, where the UK Accounting Standards Board released first the "Pension Costs in the Employers' Financial Statement"⁽¹⁾ in 1995, and finally approved the Financial Reporting Standard, No. 20, "Retirement Benefits" in November 2000. Moreover, the implementation of the standard has been deferred until the accounting year beginning on June 22, 2003.

The comparison shows how quickly Japan's ASRB was formulated and implemented. Even assuming that the difference between the two countries is attributable partly to their different approaches towards IAS, there are some problems in Japan that need further consideration – principally the following two points.

First, the setting of ASRB has been considered solely in terms of "globalizing" those standards, but the issue here is the meaning of "globalization." The globalization of accounting standards means to grasp comprehensively Japan's own benefits plans from the viewpoint of IAS, and to show the various features of Japan's retirement benefits plans in the financial statements of the Japanese companies that were formerly considered to be unique.

Second, ASRB means a set of generally accepted accounting principles for representing, through the "lens" of accounting, the actual situation concerning benefits obligations, as presented in the company's financial statements. Therefore, arguments over the standard are, strictly speaking, irrelevant to the nature of retirement benefits as such. In practice, however, the accounting standard itself is generally regarded as criteria that substantially affect retirement benefits plans, and that are in fact influencing reform of the system. The reason for this is that the accounting standard is a result of the idea of reorganizing the plans.

On the other hand, so far as Japan's retirement benefits plans themselves are concerned, while it is true that the increasing deficiency in reserve funds due to the collapse of the bubble economy since the 1990s was a major factor prompting reconsideration of pension plans, the vesting rights of employees concerning the time at which they were entitled to receive a lump-sum retirement allowance (LRA) and corporate pensions were nevertheless far from

clearly defined⁽²⁾. Nor was it really clear what the grounds were for the benefit obligations borne by the company towards its employees in respect of LRA and pensions, or when and in what amount these should be paid⁽³⁾.

It was under such circumstances that ASRB was introduced. Thus, the significance of the standard needs to be considered, not just from the viewpoint of “global” standards but from a broader viewpoint as well. This article has three aims. First, it aims to clarify the framework of Japan's new standard, and the reasons why the framework will serve as a factor in reorganization of the system of retirement benefits. Second, it will show the practical impact of the accounting standard on the business performance of Japanese firms. Third, it will discuss briefly the current state of reform, as affected by the new standard, of the retirement benefits plans in Japan.

2.0 An Approach to Understanding ASRB – Clarifying Retirement Benefits Obligations

So far, there has been no clear concept of recognizing a company's obligations regarding pensions and LRA. Admittedly, a large majority of Japanese firms have applied a method of calculating LRA based on tax law, but in fact it was not clear in what sense the 40 percent of year-end outstanding payments (the amount of retirement benefits still to be paid in accordance with company regulation) constituted “obligation.” Thus, some listed companies included on their balance sheets 100 percent of the sum liable for year-end payment as taxable. (The proportion is to be reduced to 20 percent by 2003 in accordance with changes in tax law.)

As for corporate pensions, under the definition of pension finance, a state where fund reserves fall short of the amount which should be in reserve at a given point (called obligatory reserve) is called a deficiency. However, the amount of the obligatory reserve varies greatly depending on the amount of premiums set for the future, which can be a problem so far as the amount of obligations that firms currently bear is concerned. In particular, the tax-qualified pension plans carry no legal compulsion to make up for fund deficiencies, so that the obligation that firms should bear becomes still more ill defined.

Moreover, no basic consensus had been reached concerning whether LRA represent deferred payment of wages, or remuneration for achievement, or safeguards for future livelihood. It was not even clear whether employees had any legal right to receive LRA and pensions. Thus, it is not surprising that the idea that employees have a kind of claim on companies in the form of LRA and pension payments and that they have some equity in the firm as shareholders did not develop.

The new standard rejects the above mentioned ambiguous approach to the obligations of companies concerning pensions and LRA, and is based on the following three premises.

First, since the payment of both pension and retirement allowances is the result of economic contracts between employers and employees under which the former have to pay to the latter the cost of their labor, the obligations and costs occurring in each fiscal term must be recognized in full on the firms' balance sheets. The obligations of companies are based on required future payments to employees, earned during the employees' tenures so far, so that such obligations accumulate every year in accordance with the amount of work that the employees have done.

Second, the obligations arising from the LRA, the employees' pension funds, and the tax-qualified pension plans are to be calculated comprehensively and made public. It might be objected that the amounts of each obligation of these three retirement benefits are separately measured since they all take different forms and have different purposes: while the employees' pension funds and the tax-qualified pension plans are “external contribution types,” the LRA is reserved within the firm. Furthermore, whereas the employees' pension funds basically constitute a public pension plan, the LRA and the tax-qualified pension plans are purely private pension plans. Moreover, part of the LRA is receivable as a pension, and in fact, many employees choose this option. Yet, despite the differences among the three forms of pension plans, they are the same in the sense that they are all the benefits obligations the company owes to the employees. Thus, they should be treated comprehensively in a single amount as retirement benefits obligation (RBO).

Third, RBO are not to be computed on the basis of current salaries, but must represent projected benefits obligation (PBO) – which incorporates estimated future salaries that are higher than current salaries due to expected seniority promotion and other factors – and be presented at their present value, i.e. future payments discounted at interest rates. Thus, RBO shows “accrued obligations,” unconnected with the premiums that will be paid in the future.

On the other hand, in company management in Japan, annual pension premiums were traditionally regarded as pension costs, determined from the long-term viewpoint of pension finance, and have been handled on a “cash basis.” From this point of view, even if reserve funds shrink and deficits arise, pension finances have been seen as sound provided that the deficits were made up for by the continued income of the fund within a certain period of time – for example, within three to 20 years. The new accounting standard rejects such ideas completely, calling for obligations to be presented on balance sheets at their actual present

value.

So far, company management in Japan has lacked any concept that its obligations – whether corporate pensions or LRA – represent a risk. Employers also bear the risk of fixed interest rates guaranteed during the period when employees have retired and are waiting for the commencement of pension payments. The same applies to expected interest rates during the payment of pension benefits. Additional risks are associated with the expected returns on externally contributed pension assets.

These risks had been originally embodied in pension finance in the form of the basic rate, while pension deficits arising later due to the gap between the basic rate and the actual rate applied had been looked on as something to be made up for with premiums over a future period. Even where the basic rate is set rather optimistically and the actual rate turns out to be much lower, pension deficits due to the gap between the rates had not been regarded as newly arisen costs, nor as an increase in obligations. Not only employers, but also employees – including labor unions – had failed to recognize such risks associated with retirement benefits.

For a long time, Japanese firms set the expected return on pension reserves at 5.5 percent, and because of the substantially lower actual rate, they incurred a large amount of hidden pension obligations, an obligation not recognized on the balance sheets. This low level of disclosure, a problem that aroused international attention, was a major motivation for the establishment of the new accounting standard.

ASRB now obliges firms to disclose the reality of their RBO. It stipulates that payments occurring as consideration for the labor provided by employees each year should be recognized as RBO, and that the expenses arising every fiscal term must be incorporated in the income statements as retirement benefits expenses.

Thus, the elements constituting “retirement benefits expenses” include – besides the service cost derived from services rendered by employees during each fiscal term and the interest costs charged on RBO at the beginning of each fiscal term – expected returns on assets, which are deductible from retirement benefits expenses⁽⁴⁾. Even so, since they are linked to the actual operating profits on pension reserves, they are subject to the risks of the market. So far as costs for retirement benefits in terms of LRA are concerned, these differ from pensions only in that not being external contributions, they constitute elements equally subject to market risks.

Therefore, in a case where, as in present-day Japan, large deficits have accumulated in fund reserves and the expected return on the pension assets remains low, the returns deductible from pension costs are few, and it is impossible to obtain operating profits large enough to cover the cost of interest accrued over time as pension obligations accumulate. The process further increases the costs of pension and LRA. As for the latter, unless the part of their reserve funds operated within the company raises enough profit, such allowances eventually depress the performance of businesses, which creates a major problem for Japanese firms.

3.0 Impact of ASRB on Japanese Firms

ASRB in Japan clearly requires employers' obligations concerning benefits to be recognized in financial statements, regardless of whether or not the vesting right of receipt is already specified. This is because RBO has to be calculated on the premise that retirement benefits are an economic transaction between employers and employees' that is, deferred payment of wages.

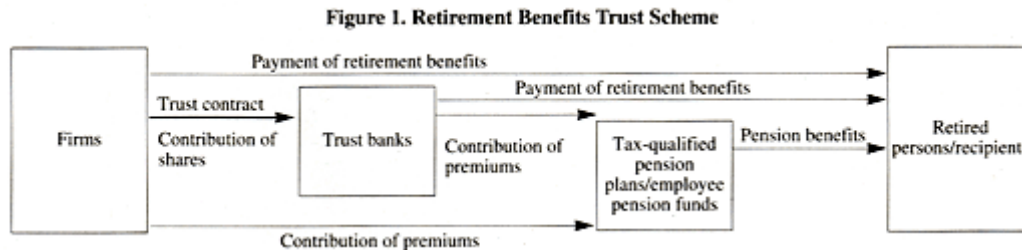
According to this view of RBO, the costs of retirement benefits surely occur every term. As already mentioned, risks in the market, such as the interest costs due to RBO and the expected return on the pension assets, are reflected in such costs.

What is more, RBO has to be expressed at their present value, with the interest on the time from the expected future payment date to the present deducted. The premise used for this calculation is the discount rate, which, as defined in the accounting standard, "must be determined on the basis of a relatively safe long-term corporate bond rate." If such bond rates go up, then RBO decreases, as do the costs of retirement benefits. On the other hand, if the bond rates fall, then the obligations and the retirement benefits expenses increase. In this sense, both RBO and retirement benefits are subject to market risks.

Pension plan assets are to be measured at fair value, and hence are also subject to market risks. In addition, the actual state of affairs must be disclosed in the firms' financial statement.

As seen above, the new accounting standard calls for fundamental reconsideration concerning the nature of retirement benefits plans. Some companies have already acted to meet the new regulations by reducing benefits payments to curb deficiencies in pension funds. Measures have also been taken to reduce benefits payments by reducing the guaranteed estimated return on pension assets below the traditional rate of 5.5 percent.

Of these measures, one of the most important to cover a severe deficiency of the Japanese firm's pension funds is a "retirement benefits trust" method, whereby firms entrust their shares to trust banks, and the banks operate the shares exclusively for the payment of retirement benefits on the basis of a clear-cut trust contract (see Figure 1).



However, this method possesses two features peculiar to Japan. First, of shares entrusted to such banks, a substantial proportion is accounted for by shares from other companies in their corporate group. Second, such shares have been held for a long time, so that there is a large amount of hidden capital gains, (i.e., the gap between market price-based valuation and the actual purchase price). The new accounting standard permits such hidden capital gains called "trust setting profit" (that is, differences of share prices between market value at the time shares are trusted and the book value) to be reflected in the statement of business performance. Thus, firms are now able to incorporate such gains on entrusted shares in order to offset the part of RBO (which were not formerly recognized but have been calculated and incorporated since the introduction of the new accounting standard) that was treated as expenses.

Because of these merits, quite a few companies in fact adopted the retirement benefits trust method almost simultaneously with the introduction of the new accounting standard. Table 1 lists major companies that have adopted the method, together with the amount of assets under it. (According to a different source, the total amount entrusted for retirement benefits reached ¥5,762.5 billion.) This shows that the ratio of retirement benefits trusts to pension assets as a whole is considerable. However, since firms are still allowed to exercise the right to operate shares that they have put into a retirement benefits trust, there is still the possibility of a clash of interests between beneficiaries and firms over the right to operate the shares.

Table 1. Major Companies Adopting Retirement Benefits Trust Method

(Unit: ¥100 million)

Name	Value of shares entrusted	Pension assets
Fujitsu Ltd.	5,200	5,749
Mitsubishi Heavy Industries Ltd.	1,800	NA
Mitsubishi Electric Corp.	1,200	6,964
Mitsubishi Corp.	800	2,397
Asahi Glass Co., Ltd.	758	1,683
Toshiba Corp.	744	9,875
Dai-ichi Kangyo Bank, Ltd.	719	NA
Nippon Paper Industries Co., Ltd.	620	677
Nippon Express Co., Ltd.	600	NA
Fuji Photo Film Co., Ltd.	540	2,386
Fuji Bank, Ltd.	500	NA
Taisei Corp.	480	600
Nomura Securities Co. Ltd.	300	929
Oji Paper Co., Ltd.	287	1,099
Mitsubishi Chemical Corp.	180	1,122
Mitsui O.S.K. Lines, Ltd.	162	117

Note: As of March 31, 2000.

Source: *Nihon Keizai Shimbun*, March 20, 2000.

In theory, the shares entrusted under the retirement benefits trust method ought to be included in the consolidated financial statements, but in some cases such shares are regarded as contributed to another agent and hence are excluded from these statements. However, the Japanese Institute of Certified Public Accountants has given notice that the exclusion from the consolidated accounting of shares entrusted to trust banks is contrary to the purpose of the accounting for retirement benefits.

Even before the introduction of the new accounting standard, pension funds had shown serious deficits because of the obscurity of calculations of RBO on one hand and a drastic decline in the returns on pension assets due to the collapse of the bubble economy on the other. However, such cases had remained “hidden pension liabilities” and had not come to the surface. The actual state of retirement benefits in 204 listed companies following the introduction of the new standard is shown in Table 2. Table 3 shows the impact of the new accounting standard on consolidated profits of firms (the 15 firms most affected by the new standard) in the first fiscal year following their introduction.

Table 2. Status of Pension Fund Reserves in 204 Listed Firms

(Unit: billion yen)

Pension assets:	4,642.4 (52%)
Retirement benefits trust:	969.8 (11%)
Retirement benefits provision:	2,331.8 (26%)
Unrecognized amount of difference at the time of change in the new accounting standard:	1,081.5 (12%)
Unrecognized discrepancies due to calculation:	21
Unrecognized pension plan assets:	8.4
Expenses for advance payment of pension:	89.7
Projected benefits obligations:	8,895.8 (100%)
Unrecognized prior service obligations:	52.6

Note: As of the end of fiscal 2001.
Source: Pension Planning Division, Mitsubishi Trust and Banking Corp., May 2001.

Table 3. Impact of Admission of ASRB on Pretax Consolidated Profits (March 2001)

(Unit: ¥100 million)

Rank of top 15	Name	Impact of ASRB on consolidated profits	Pretax consolidated profits
1	Fujitsu Ltd.	-4,380	1,576
2	Toyota Motor Corp.	-3,928	8,641
3	NTT	-3,031	11,692
4	Mitsubishi Heavy Industries Co., Ltd.	-1,650	-51
5	Nippon Express Co., Ltd	-1,317	-458
6	Sumitomo Electric Industries, Ltd.	-1,190	733
7	Mitsubishi Motors Corp.	-1,176	-4,073
8	Denso Corp.	-900	1,073
9	Nippon Steel Corp.	-864	494
10	Asahi Glass Co., Ltd.	-855	604
11	Toppa Printing Co., Ltd.	-819	351
12	Tokyo Electric Power Co., Inc.	-795	3,291
13	Taiheiyo Cement Corp.	-701	-586
14	Shiseido Co., Ltd.	-666	-596
15	Tokyu	-650	-250

Source: *Nihon Keizai Shimbun*, July 18, 2001.

As Table 2 shows, such negative impacts will certainly continue to affect company profits still further, in that the amount of obligations unrecognized under the old standards has turned out to account for 12 percent of the retirement benefits liabilities as a whole.

Moreover, there is another important issue concerning the impact of RBO and the costs for firms – namely, the high discount rate used in calculating the present value of RBO, compared to the market rate. As Table 4 shows, the mode of discounted rates used is 3.5 percent. Judging from the fact that the profit rate of 10-year national bonds is far less at 1.5 percent, it can be said that the currently applied discount rate is fairly high. If it should become necessary to lower the discount rate to meet international accounting standards, then the status of retirement benefits in Japanese firms would appear much worse. Here, too, retirement benefits seem likely to have a great impact on the business performance of Japanese firms.

Table 4. Discount Rate Applied in 204 Listed and 247 Unlisted Companies

Discount rate	2.5%	3.0%	3.5%	4.0%	Other	Total
Listed company	3 (1.5%)	77 (37.7%)	117 (57.4%)	2 (1.0%)	5 (2.5%)	204 (100.0%)
Unlisted company	6 (2.4%)	100 (40.5%)	131 (53.0%)	7 (2.8%)	3 (1.2%)	247 (100.0%)
Total	9 (2.0%)	177 (39.2%)	248 (55.0%)	9 (2.0%)	8 (1.8%)	451 (100.0%)

Note: As of the beginning of fiscal 2000.

Source: Pension Planning Division, Mitsubishi Trust and Banking Corp., May 2001.

4.0 The Future of the Retirement Benefits Plans in Japan

As seen in the previous section, the new ASRB effective since April 1, 2000 not only has affected the business performance of Japanese firms, but also will affect the retirement benefits plans themselves. This is because the view of retirement benefits that is assumed in the new accounting standards demands a reconsideration of the nature of the retirement benefits plans themselves.

This need is clearly reflected in the following point: the new accounting standard comprehensively embraces three major retirement benefits plans, at the same time measuring and setting out the obligations and retirement benefits expenses. This approach to the schemes has served as an opportunity to view various kinds of employees' benefits, including retirement benefits, as "total compensation," thus enabling reorganization of the remuneration system as a whole. In line with this, some firms have abolished payment of lump-sum retirement allowances, and incorporate such benefits into regular salaries instead, through schemes for advance payment of retirement benefits.

In June 2001, the Defined-contribution Pension Plans Act was passed, as the first legal basis for such plans in Japan. Under the Defined-benefit Corporate Pension Plan Act, which was enacted at the same time, firms are allowed to give up their role in managing funds for the public pensions, while the tax-qualified pensions, where the vesting right of receipt of benefits was unclear, will be abandoned within 10 years. Some leading companies, such as Sony and Toyota Motor Co. Ltd., are planning to transfer parts of their retirement benefits to the defined-contribution pension plan. As all this suggests, the reform of schemes for retirement benefits has been spreading rapidly since ASRB was drawn up in 1998.

Notes:

- (1) Accounting Standards Board. "Retirement Benefits," *Financial Reporting Standard*17, (2000).
- (2) See NLI Research Institute. *Zaishokuchu no R d sha ni Taisuru Taishoku Ky fu (Taishokukin•Kigy Nenkin) no Juky ken no Fuyo* (Endorsement of the Right to Receive Retirement Benefits [Retirement Allowance and Corporate Pensions]). 1998.
- (3) See Sugano, Kazuo et al. *Rōdōhō* (Japanese Labor Laws). Tokyo: Kobundo, 1999.
- (4) Under the Japanese accounting standards for retirement benefits, as in No. 17 of the IAS and SFAS 87 of the U.S., profits and losses due to calculations ("differences of actuarial calculation") are included as a component of other expenses, along with differences due to changes in accounting standards. Incidentally, the corridor approach is not allowed in handling differences of actuarial calculations, which may be eliminated during the fiscal year in which they occur, or in the

following fiscal years.

JIL News and Information

Survey on Work and Life among Expatriates in Japan (Part 3)

5.0 Support & Work Satisfaction

5.1 Company support for expatriate employee and family during expatriation

The majority of companies provide expatriate employees various kinds of support, such as a “home leave for the expatriate” (89.7%) and a “home leave for accompanying family member” (81.5%). However, fewer companies provide other types of support, such as a “temporary visit to Japan by non-accompanying family members” (19.9%), a “vacation to a third country for the expatriate” (11.9%), and a “vacation to a third country for accompanying family members” (10.6%).

5.2 Support and benefits programs provided by either dispatching company or labor union

The most frequent kinds of support that dispatching companies or unions provide are “language study in Japan for the expatriate” (74.8%), “financial assistance for health exams” (56.3%) and “financial assistance for private accident insurance” (46.0%).

On the other hand, the following types of support are provided by less than 10 percent of the companies surveyed: “crisis management & measures” (9.9%), “risk management” (5.3%), “support for non-accompanying family members” (4.6%), and “information from labor unions, union visits” (0.7%).

Among these types of support, expatriates feel that the most necessary program for their situation is “language study in Japan for the expatriate” (20.9%), followed by “financial assistance for health exams” (10.3%) and “financial assistance for private accident insurance” (7.6%). Hence, there is a moderate correlation between types of support provided by companies and those demanded by expatriate employees.

5.3 Job satisfaction Seventeen items were used to measure the expatriate employees' current job satisfaction by asking for a response to each item on a five-point scale. Factor analysis revealed four dimensions of job satisfaction, namely, “pay satisfaction” (five items), “supervisor satisfaction” (four items), “work satisfaction” (two items), and “interpersonal satisfaction” (two items). Four items in the list were not significantly categorized into any of these four dimensions.

Because pre-departure motivation toward the overseas assignment is likely related to post-arrival job satisfaction, the relationship between willingness to take this assignment and each job satisfaction dimension was analyzed by a cross-tabular analysis. Table 5-1 shows a comparison of the group average among “wanted to go on the current overseas assignment,” “did not want to go,” and “didn't feel strongly either way.”

Table 5-1. Cross-tabulation for Willingness to be Assigned Overseas and Job Satisfaction

	Pay Satisfaction	Supervisor Satisfaction	Work Satisfaction	Interpersonal Satisfaction
Wanted to go	17.27	13.00	7.86	7.30
Didn't want to go	15.75	13.00	5.50	5.50
Neither of above	15.59	13.17	7.63	7.00

The result clearly indicates that the group of expatriate employees who wanted to go on the current assignment scored higher in satisfaction than the other groups, in all dimensions except supervisor satisfaction.

This result suggests that a dispatching company should take a candidate's willingness to be assigned overseas into serious consideration as one of the key selection criteria ensuring job satisfaction of future expatriates.

6.0 Thoughts on the Living Environment

6.1 Children's education

One-third (31.1%) of the expatriates surveyed had at least one child in their household. Of that group, the average number of children per household was 1.9, with the distribution concentrated on either two children (43.6%) or one child (37.2%). The majority of families send their children to either an international school (53.2%) or a home country-system school (43.6%). Only 5.3 percent send their children to a local school. The overall satisfaction with the educational environment in Japan was 3.60 on a five-point scale.

6.2 Satisfaction with life in Japan

Table 6-1 shows the results of a seven-item question on life satisfaction. Items such as “safety, morality” (4.49), and “food” (4.28) received scores above four points on a five-point scale. On the other hand, “medical environment” (3.08) and “relationship with neighbors” (3.41) rated lower than other items. Satisfaction with local life in general received 3.83 points.

Table: 6-1. Satisfaction with Life in Japan

Life Satisfaction Items	Average
Housing	3.92
Food	4.28
Commuting Time & Method	3.89
Medical Environment	3.08
Relationship with Neighbors	3.41
Safety, Morality	4.49
Living Conveniences	3.87
Local Life in General	3.83

6.3 Adjustment in Japan

Factor analysis was performed to categorize 14 items of cross-cultural adjustment on a five-point scale. It revealed that three dimensions of adjustment explain the constructs of the scale, namely “general adjustment” (six items), “interpersonal adjustment” (four items), and “job adjustment” (three items). One adjustment item on “health care” was not significantly categorized into any of the above dimensions.

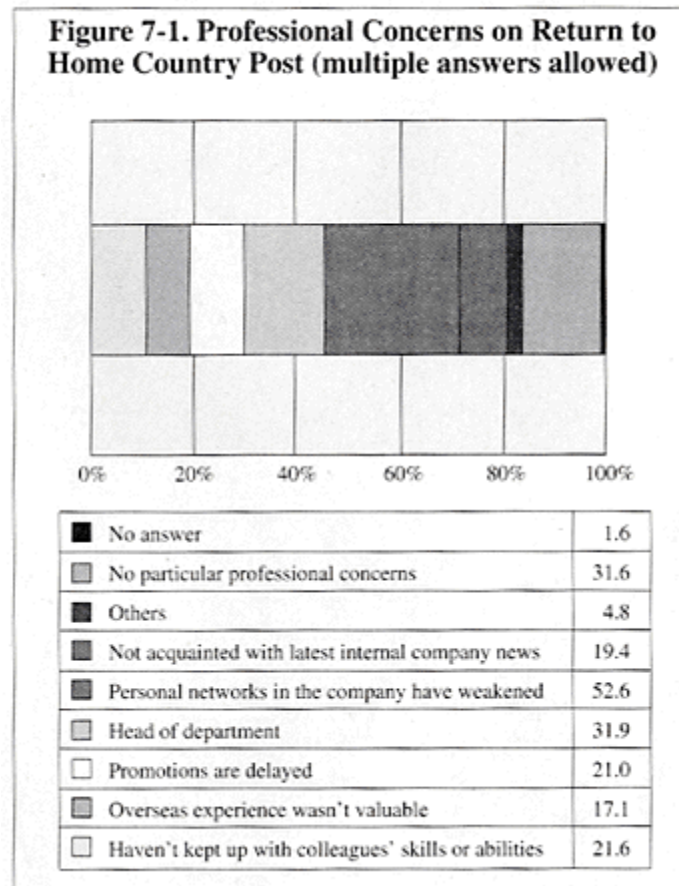
Because each dimension of adjustment was hypothesized to relate with duration of stay in local society, an average adjustment level was calculated by year for each dimension. Table 6-2 indicates that the longer the duration of stay, the higher the level of interpersonal and job adjustments. However, there is no significant difference in average among duration of stay for general adjustment. This result suggests that general adjustment shows the strongest persistence in terms of original cultural attitudes and perceptions.

Table 6-2. Adjustments by Duration of Stay

General adjustment	Average	Interpersonal adjustment	Average	Work adjustment	Average
Less than one year	24.16	Less than one year	12.74	Less than one year	12.15
1 to 2 years	22.91	1 to 2 years	13.38	1 to 2 years	11.83
2 to 3 years	23.74	2 to 3 years	14.40	2 to 3 years	12.69
3 to 4 years	24.00	3 to 4 years	14.11	3 to 4 years	12.43
4 to 5 years	23.88	4 to 5 years	15.10	4 to 5 years	13.03
More than 5 years	23.88	More than 5 years	15.86	More than 5 years	13.07

7.0 Repatriation to the Dispatching Organization

Figure 7-1 examines the various concerns expatriate employees may have about their jobs upon returning to their home country assignment. A majority (52.6%) pointed to “personal networks in the company have weakened” as their primary concern, with “dispatching company work style has become unfamiliar” being a worry of 31.9 percent of returning expatriates. “Haven't kept up with colleagues' skills or abilities” was a concern of 21.6 percent, and “promotions are delayed” was selected by 21 percent.



Next, Figure 7-2 refers to the daily life concerns expatriate employees may have when returning to their home country. “No particular daily life concerns” occupies 46.1 percent of the responses. Those who pointed to specific concerns cited “relations with relatives or friends have become distant” the most often, at 25.8 percent, while “education problems for children” and “lost touch with domestic news/affairs” each received 19.7 percent.

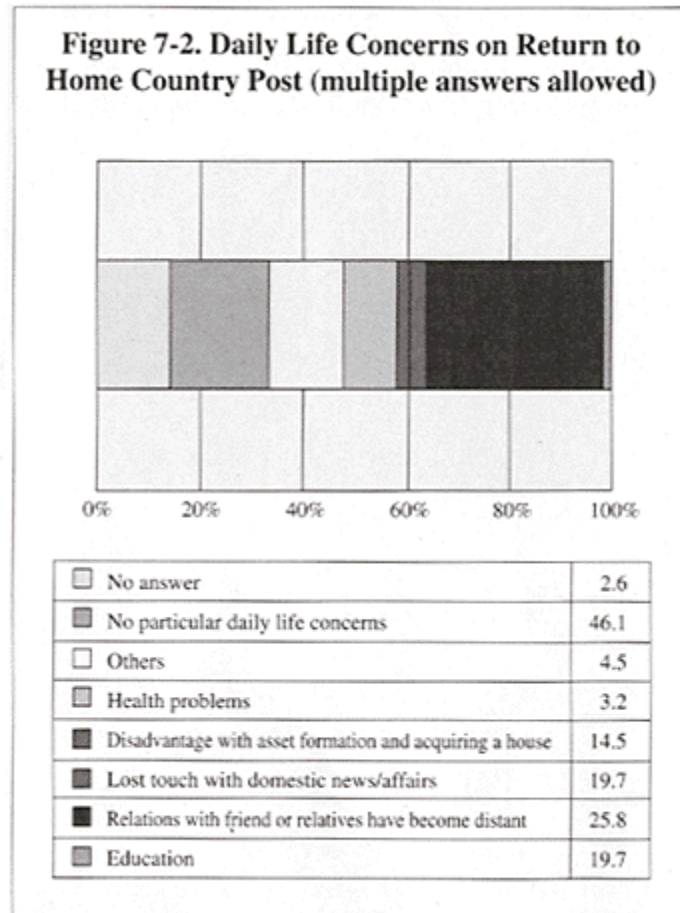
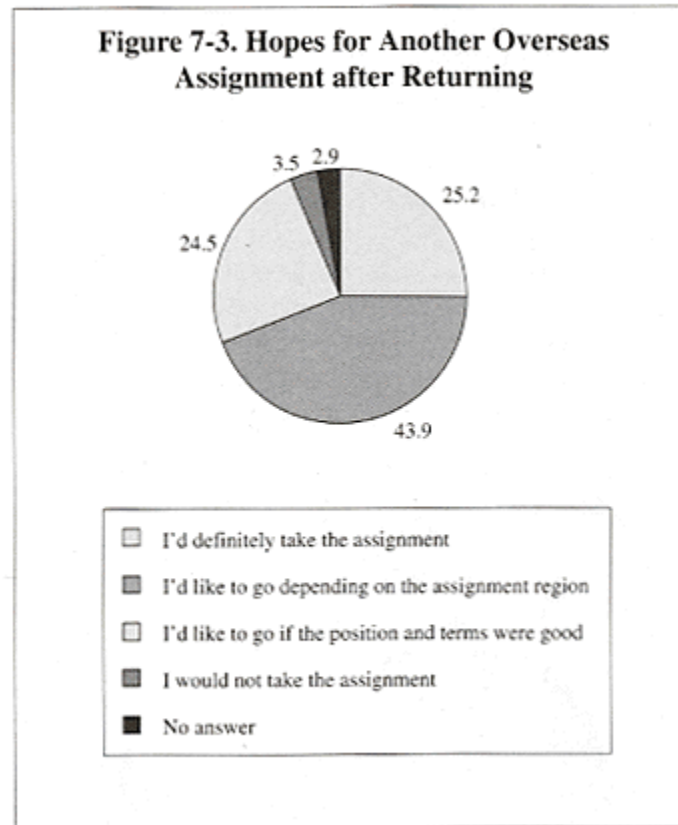


Figure 7-3 shows answers to the question “After returning to the dispatching organization, what would you think of taking another overseas assignment?”. As the figure illustrates, 43.9 percent of expatriate employees said they would consider another overseas assignment “depending on the assignment region.” Following that response was the unconditional “I’d definitely take the assignment;” 25.2 percent of expatriate employees hope for another such assignment. Beyond that, 3.5 percent indicated they would refuse any further requests, responding, “I would not take the assignment.”



Note:

A detailed report of this survey in Japanese is scheduled to be completed in September. For more information, please contact the International Affairs Department (question@jil.go.jp).

OPINIONS REQUESTED

The editor invites readers to send their views and comments on the contents of JLB via e-mail to akuwa@jil.go.jp or via fax to +81-3-5991-5710.

Statistical Aspects

Recent Labor Economy Indices

	June 2001	May 2001	Change from previous year (June)
Labor force	6,804 (10 thousand)	6,821 (10 thousand)	-20 (10 thousand)
Employed	6,388	6,402	-14
Employees	5,396	5,399	-5
Unemployed	330	329	1
Unemployment rate	4.9%	4.9%	0.0
Active opening rate	0.61	0.61	0.02
Total hours worked	159.6 (hours)	148.7 (hours)	-0.4
Total wages of regular employees	(¥ thousand) 482.0	(¥ thousand) 286.4	-1.7

Note: * Denotes annual percent change.

Source: Ministry of Public Management, Home Affairs, Posts and Telecommunications, *Rōdōryoku Chōsa* (Labour Force Survey); Ministry of Health, Labour and Welfare, *Shokugyō Antei Gyōmu Tōkei* (Report on Employment Service), *Maitzuki Kinrō Tōkei* (Monthly Labour Survey).

Quotas of Disabled Employees; Actual Proportion of Disabled Employees; and Proportion of Enterprises Hiring Less than the Legally Required Hiring Rate for Disabled Employees (General private firms; as of each June)

