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Japan passes reforms that delay pension to age 65

by Pat Murdo

This excerpt of an article submitted by Allan Affleck with Milliman & Robertson in Japan was reprinted with permission from the JEI Report *from the Japan Economic Institute. It appeared in the November 11, 1994, issue.*

The Diet, the parliament in Japan, recently tackled a problem that demographics experts paint as critical to keeping the social security system in Japan balanced between the costs to workers and the benefits to retirees. It agreed to delay until 65 the age at which retirees can get their full social security payments. The postponement will not affect any employees now older than 53. Those who are self-employed already have an age 65 starting date for payment of full benefits.

The pension reform package, passed by the lower house of the Diet October 26 and by the upper house November 2, impacted workers' paychecks immediately, however, by boosting the premium that employers and employees split equally. Starting in November 1994, the rates rose from 14.5% percent of monthly standard pay to 16.5% (or 8.25% each). These premiums are scheduled to increase through the year 2025 to a combined 29.6%, a rate that was kept below 30% in exchange for the agreement to boost the pensionable age and enact several other reforms sought by pension advisers. The legislative package also reinstitutes separate time lines for women and men, for whom the premium and the pensionable age recently had reached parity. It also provides increases in basic social security benefits for both employees and the self-employed.

Since the Japanese have the highest longevity numbers in the world — over 76 for men and over 82 for women — and because the fertility rate has fallen to well below the 2.1 population replenishment level (now averaging 1.46 children per woman), Japan's population is aging over a much shorter time frame than that of many other industrialized countries.

Its social security system also has come of age. All workers and their spouses now can get a basic pension *(kiso nenkin)*, while employees get a second, additional tier called the *kosei nenkin*. Various reforms to this date have sought to expand pensions for spouses of employees and to set up a program so that the self-employed or the unemployed can have a second source of funds similar to that of employees through their two-tier system. Another objective previously addressed is to gradually make the system more uniform for all employees regardless of their source of employment. In the past, one set of conditions applied to government employees, while school teachers or other civil workers were subject to another.

Setting 65 as the age at which now middle-aged employees will receive their full pension resolves, to a large part, the equity issue of different ages of eligibility for the basic or nonearnings-related pension. The later age of eligibility primarily is intended to keep the system from putting too great a premium burden on the working generation. Without such a change, studies have indicated that the combined employer-employee premium could go as high as 38.8% of a worker's monthly standard pay.

The recently enacted reforms have been in the works for more than five years, in large part because of the political sensitivity of delaying the age of eligibility for a full pension. Also, analyses suggest that young workers who pay into the system over the next

40 years or so will put in more money than they will receive in social security benefits down the road. This situation obviously threatens to undermine support for the system and has led some people to call for the government to bear more of the burden for financing social security through taxes than it now does. Currently, Tokyo covers one-third of the cost of the basic pension. The government also pays all administrative expenses for the social security insurance system. Given the current debate about how or if Japan is going to shift its tax policy toward indirect (consumption or sales) taxes from direct (income) taxes, the Diet decided not to address the question of more government support for social security financing at this time.

Related to the indirect/direct tax question is the issue of whether to implement a tax identification number, similar to America's social security number. Without such a tool, some observers contend, the temptation will be greater as premium costs rise for the self-employed not to pay into the government's national pension *(kokumin nenkin)* fund. Currently an estimated 5 million people have dropped out or do not participate in the progran.

Among the reforms included in the new pension bill are:

- Premiums will increase. For employees and employers, the scheduled combined rises are: 16.5% of regular monthly pay starting in November 1994, rising to 17.35% in October 1996 and then to 19.5% on October 1999, with additional increases planned to a level of 29.6% in 2025. Self-employed people, who now pay a flat monthly rate of ¥11,100 ($111 US at ¥100-$1.00), will pay ¥11,700 ($117) a month starting in FY 1995, which begins next April.

- The average monthly pension will rise by about 4%. Thus, a person who had been receiving ¥206,300 ($2,063) will receive ¥214,300 ($2,143), with the increase retroactive to October 1994. A retired person who had been self-employed and who participated for 40 years in the national or ***kokumin nenkin*** fund will receive ¥65,000 ($650) a month instead of ¥62,275 ($623).
- Evaluation of past career average earnings or adjustments to workers' social security payments — done every five years — will be made based on regular monthly pay, minus taxes and insurance costs (the net wage index), instead of gross wage index as in the past.
- Delay in the age at which benefits are available, starting in 2001 for men born after April 1, 1941, and in 2006 for women born after April 1, 1946. Partial payouts are allowed for those retiring before the eligibility age. Through the year 2013, when 65 will be the routine age of full eligibility, the percentage of the payout will fluctuate with the retiree's age.
- An adjustment will be made for a "retiree" younger than 65 who continues to work but wants to draw on the social security benefits. His or her payout will be 80% of a full pension if the total of salary and pension does not exceed ¥220,000 ($2,200) a month. If the total exceeds ¥220,000 ($2,200), then 50% of the excess is deducted from the pension. A person earning ¥340,000 ($3,400) a month or more has the pension reduced ¥100 ($1) for each ¥100 ($1) of the excess over ¥220,000 ($2,200).
- Bonuses, which previously were not included in the social security premium, will be covered as of April 1, 1995, at a rate of 1% of the bonus, to be split evenly between employee and employer.
- Foreign workers who contribute for at least six months to the social security system will be eligible to receive a lump-sum reimbursement, starting in April 1995. They can apply for the payout after they have left Japan. Their refunds will be calculated on their average monthly salaries while in Japan and are subject to a maximum of three years' pay.
- Double-dipping by people who apply for both unemployment insurance and social security will be disallowed as of fiscal 1998, with the government withholding pension payments.
- Employee contribution is exempted for those on maternity leave (up to one year). The employer contribution continues during this time.

The reforms address many of the concerns about the pension system's inequities. Nonetheless, since the package did not include a way to encourage participation by the self-employed, the system still will have loopholes that serve to weaken it. Moreover, companies are worried about the increasing burden that they will face as premiums rise. Social security reform in Japan, as in the United States, clearly will stay on the agenda in the foreseeable future — even though the steps taken this year are sizable, considering the problems the government has faced in trying to move the pension eligibility age to 65.

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control and will no longer be writing the rules. These statements could apply to actuaries as well.

Blackwell writes that the way to a successful career in today's environment, where companies need fewer humans to get jobs done, is to make a personal contribution to a growing firm. He says the best way to make this contribution is to be able to think and function globally. To do this, one must understand demand (selling in other countries), supply (sourcing in other countries), and management (adopting methods from other countries).

Cultural empathy

How flexible and understanding can actuaries be in situations involving multiple cultures? I certainly don't know, but in scanning the many international topics at 1994 Society meetings, it becomes apparent that program planners believe actuaries may need training in this area. Companies trying to fill overseas actuarial positions also find that actuaries' tendency to avoid risk sometimes make those positions hard to fill. I assert that the answer to how actuaries rank on cultural empathy will determine, more than anything else, how the profession does in the coming economic battle.

Issue's international emphasis

You will notice that this issue of *The Actuary* contains several articles dealing with international topics, from President Bob Berin's address, which discusses the importance of the Society's international members, to articles on financial conglomerates in Europe and North America, actuarial education in Russia, changes in Japan's social security system, and the French health care system. We expect many of these issues to have an impact on the Society's members.

What are your views of how the actuarial profession will fare in the growing globalization of business? Please write to *The Actuary*, and let us know.