

# Spotlight On Retirement

JAPAN



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# Spotlight on Retirement: Japan

2018

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## Executive Summary

Japan is unique in having aged more rapidly than other Asian markets, and it will continue to do so over the next couple of decades. Not only is Japan continuing to age, its overall population is shrinking. The overall population of Japan is likely to decrease to 109 million in 2050 from 127 million in 2017. Clearly, the differential between the growth of the overall population and the increase in elderly will only widen and further exacerbate the retirement-funding challenge. In fact, the elderly population is expected to grow from 41.9 million in 2015 to 46.1 million in 2050.

The potential support ratio suggests a steadily worsening trend between 2000 and 2050 and is anticipated to deteriorate from 4:1 in 2000 to 1.4:1 by 2050, remaining at that level through the end of this century. Japan can look to a future where there will be fewer than two people in the labor force supporting every one person aged 65 and over.

Despite the recent reforms undertaken by the government, Japan is ranked at an overall 46<sup>th</sup> out of the 54 markets included in the Allianz overall Pension Sustainability Index. In spite of ranking at a relatively impressive 18<sup>th</sup> in pension systems (a sub-parameter), it ranks a dismal 50<sup>th</sup> and 52<sup>nd</sup> when it comes to public finance and demographics respectively. This is a major reason for concern regarding the sustainability of Japan's pension systems.

Survey results show that almost 70 percent of respondents across Japan consider retirement funding as their own responsibility. However, there is a slight difference across generations. The proportion of respondents who consider it their own responsibility is much higher among the pre-retirees (74 percent) and young workers (71 percent), than among retirees (59 percent). This disparity points to a change in mindset in younger workers who are willing to be proactive about their future needs, rather than dependent on past employers or the government.

However, around 1 out of 2 respondents regret delaying saving for retirement or not having started saving for retirement at all. This proportion is even higher among pre-retirees, where almost 56 percent said they regret delaying retirement planning. This finding suggests that individuals often miscalculate how much and how long they need to save and invest for retirement, only to realize later that they haven't saved enough.

A significant 85 percent of respondents across Japan anticipate a gap in retirement funds when they turn age 60, while a meager 15 percent of respondents expect to have more than 81 percent of the funds they need to lead a comfortable retired life. The young workers, even after saving for the longest duration, expect a much wider gap in their retirement funds compared to other respondents.

Importantly, despite this anticipated retirement-funding gap, most respondents do not seek professional help. On the bright side, 45 percent respondents stated that they are willing to convert a portion of their assets to annuities to generate retirement income. The interest in annuities was particularly high among young workers. This expressed interest represents a significant opportunity for the industry to educate consumers, especially the relatively young ones, and offer annuity products.

Consumers showed strong preferences for guaranteed income for life, protection of principal investment, and fixed returns. They demonstrated an affinity for features that guaranteed lifetime income, income that remains the same or fixed throughout retirement, and features that offer guaranteed returns on investments. Banks emerged as the most popular channel to buy retirement income products in Japan. In fact, across all markets across Asia, banks were selected as the top distribution channel.

# Introduction

***Japan's population is aging rapidly and steadily, moving from a very mature to an aged demographic. While its economy remains rich, it faces significant challenges in preparing to care for its elderly in the coming decades.***

Japan's population of 127 million in 2017 has gone through major demographic transitions over the last few decades. Today, with a third of its population over 60 years of age, it has the oldest population not only in Asia but in the entire world. This situation is not likely to change over the next few of decades. In fact, it is going to worsen, and the proportion of those age 60+ among the population is going to rise to almost 42% by 2050.

The country has already been through the typical demographic cycle and has witnessed lower fertility, rising longevity, and a changing social structure in the decades since World War II. However, it is going to reach milestones that are totally unprecedented, not just in Asia but globally. With a median age of 46.3 years in 2015, Japan has the most mature demographic profile compared to 26.7 years in India, 40.8 years in Korea, 39.6 years in Taiwan, and 37 years in Mainland China.

Japan's demographic transition is deeper than that experienced by any markets across Asia. From a median age of 46.3 years in 2015, Japan will continue to age and reach a median age of 53.2 years by 2050. Only a few countries across the world are as aged as Japan today — those closest are Italy, Germany, Bulgaria, Finland, and Portugal. Today, Japan is the only Asian market in the world's top-10 aged economies. However, by 2050, markets including South Korea, Taiwan, Hong Kong, and Singapore will join the list.

Japan needs to continue to prepare to face the challenges of a rapidly aging population, including a smaller workforce, a decreasing work-support ratio, and a potential economic slowdown of growth, as these are likely to put immense pressure on pension systems in the future.

Along with these pressures, other social and economic changes could further aggravate the retirement challenge, despite national efforts to prepare. Over the decades the Japanese family structure has undergone significant changes. Lower levels of fertility, rising instances of individuals delaying marriage or not marrying, childlessness, separation among couples, and declining levels of intergenerational co-habitation, have led to shrinkage of household size and affected the social fabric of the Japanese people.

In the past, as in other Asian markets, many in Japan were dependent upon a supportive, close-knit family structure during retirement. Changing socio-economic dynamics, now and in the future, will have an impact on how people spend their retired lives. Hence, there needs to be a sustainable retirement and pension system for the aging population.

This study is designed to identify how Japan's consumers are planning to deal with their upcoming or current retirement challenges and what their aspirations are. The Japan study is an extension of the earlier research on China retirement during 2015 – 16, a collaboration between the Society of Actuaries and LIMRA, designed to determine the challenges faced by other major markets across Asia.





## About the Survey

***The Japanese retirement research study is a part of the Asia Retirement study, a collaborative research project between the Society of Actuaries and LIMRA. The larger study surveyed a sample of 9,384 respondents to identify consumer perception of retirement across major Asian markets including Hong Kong, India, Indonesia, Japan, Singapore, South Korea, Taiwan, Thailand, and China. The Japan study is a part of the second wave of the broad study covering eight markets. The first wave covered mainland China. This report, which surveyed 793 respondents online, is structured to identify the consumer perception of retirement across Japan.***

The study targets three age segments: young workers (30–45 years), pre-retirees (46–60 years), and retirees (60+ years) across different regions of Japan. Young workers are essentially at an early stage of their careers and planning for marriage or planning to start families. Pre-retirees are gradually approaching retirement and planning to start saving for comfortable retirements. Retirees are close to or in retirement. The data were collected online across all the markets.

This study is structured to identify the attitudinal differences across different regions, sub-regions, age bands, and genders to help insurers and other financial organizations prepare the right solutions to address future consumer needs. The study also highlights consumers' level of preparedness, retirement readiness, current and future income sources, risk tolerances, and preferences of products and product features.

- The study covered a sample of 793 respondents across eight sub-regions and at different income levels to determine regional and economic diversity (Table 1 and Appendix). It further includes quotas based on income levels and other parameters to ensure better quality of data.
- In the consumer research data, “Asia” refers to an unweighted average of the eight or nine markets covered in the study. Some questions and options were not covered in the earlier wave of the China study.
- The survey data was collected during the second half of 2017.

**Table 1 — Overall Sample Split Across Japan: Age Band**

Age band	Sample
Young workers	291
Pre-retirees	283
Retirees	219
TOTAL	793

Source: LIMRA-SOA Retirement Study 2017 – 2018.

**Table 2 — Overall Sample Split: Gender**

Gender	Sample
Male	548
Female	245
TOTAL	793

Source: LIMRA-SOA Retirement Study 2017 – 2018.

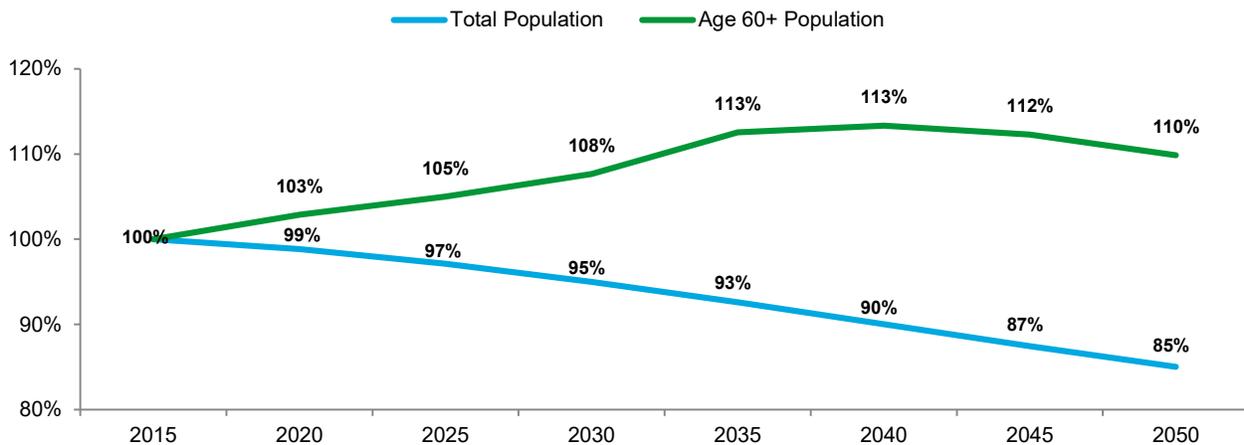
# Demographic Transition

## ON THE ROAD TO AN AGING POPULATION

Japan is already far advanced in the demographic aging process. In fact, Japan was one of the first non-Western market to experience declining fertility and did so at a faster pace than other aging industrialized countries. Despite fluctuations, Japan's fertility has gradually decreased since the early 1970s.<sup>1</sup> Japan currently has the world's highest median age, making it the most aged society, and it is likely to remain so until 2045. (By 2050, South Korea is expected to overtake Japan marginally.)

In 2015, the median age of the Japanese population was 46.3 years. By 2030 it is likely to be 51.5 years; by 2050, it is likely to continue to rise to 53.2 years. In fact, between 2015 and 2050, while overall population growth is anticipated to turn negative, the elderly population is anticipated to grow by 10 percent. The overall population of Japan is likely to shrink to 109 million in 2050 from 127 million in 2017. This trend clearly indicates that the divide between the growth of the overall population and the elderly will get wider and wider and result in an increasingly aged population. The growth of the elderly population is expected to continue; from 41.9 million in 2015, it is expected to rise to 46.1 million in 2050.

**Figure 1 — Overall Population Growth Versus Age 60+ Population Growth**



Source: UN Population Division, 2017 data, LIMRA International Research.

The overall population growth and growth of age 60+ population has been rebased to 2015.

**Japan's population will shrink by around 19 million between 2017 and 2050.**

Medical advances and improved lifestyle have resulted in prolonged life expectancy. Coupled with the declining growth of the overall population, this trend will result in a massive shift in the age structure of the population.

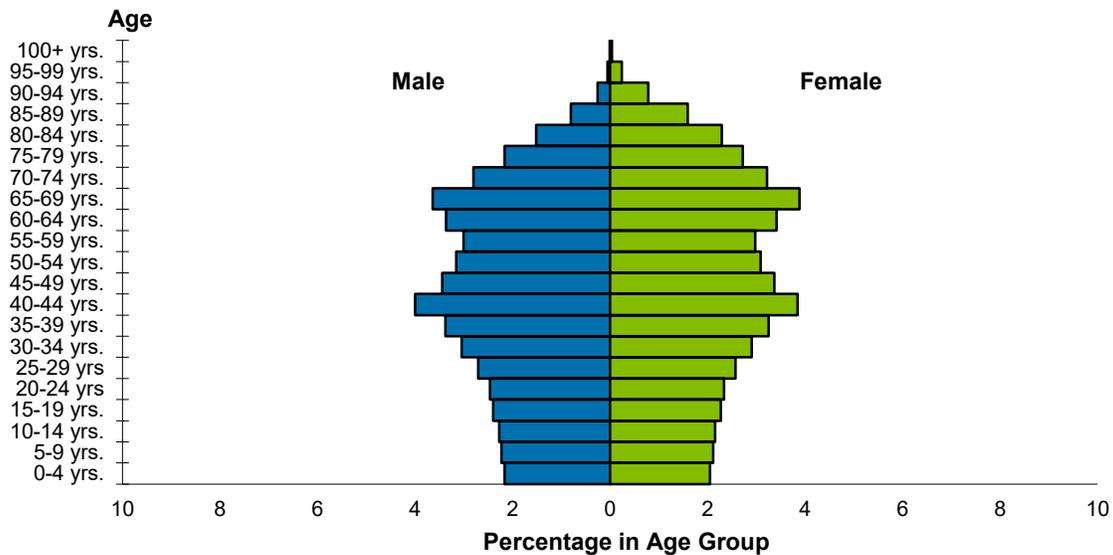
<sup>1</sup> [http://www.un.org/esa/population/meetings/Proceedings\\_EGM\\_Mex\\_2005/ogawa.pdf](http://www.un.org/esa/population/meetings/Proceedings_EGM_Mex_2005/ogawa.pdf) : Date accessed 2018.



The population pyramids display the distribution of various age groups of the Japan population by gender across 2015, 2030, and 2050. They clearly illustrate the increase in the elderly population over the next three decades. It is easy to see that the country needs to anticipate and accommodate the changing needs of its people.

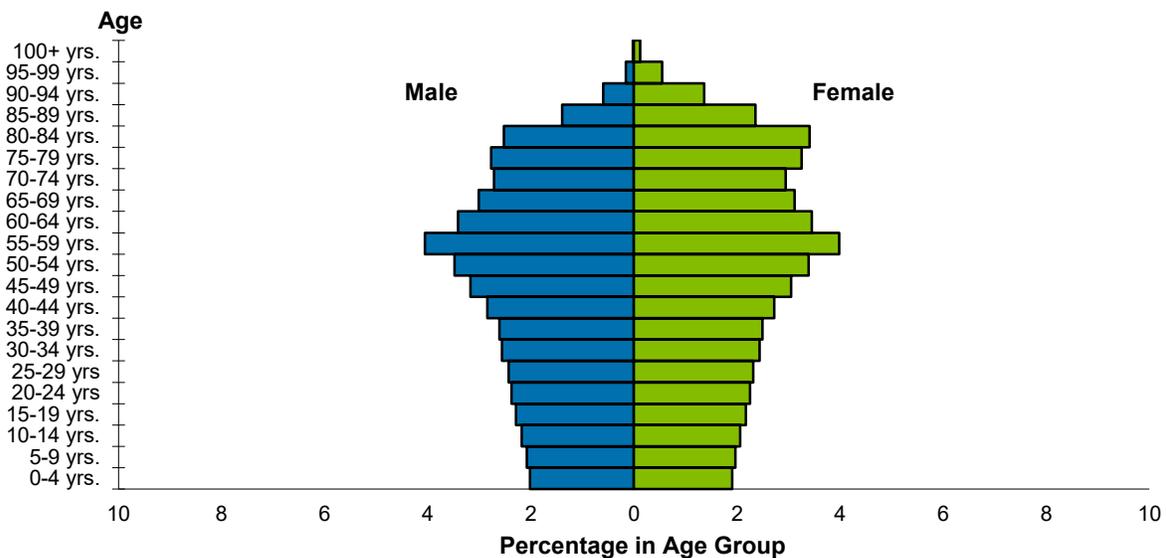
**Japan currently has the highest median age globally; it is likely to rise to 51.5 years by 2050 from 46.3 years in 2015.**

**Figure 2 — Population Pyramid: 2015**



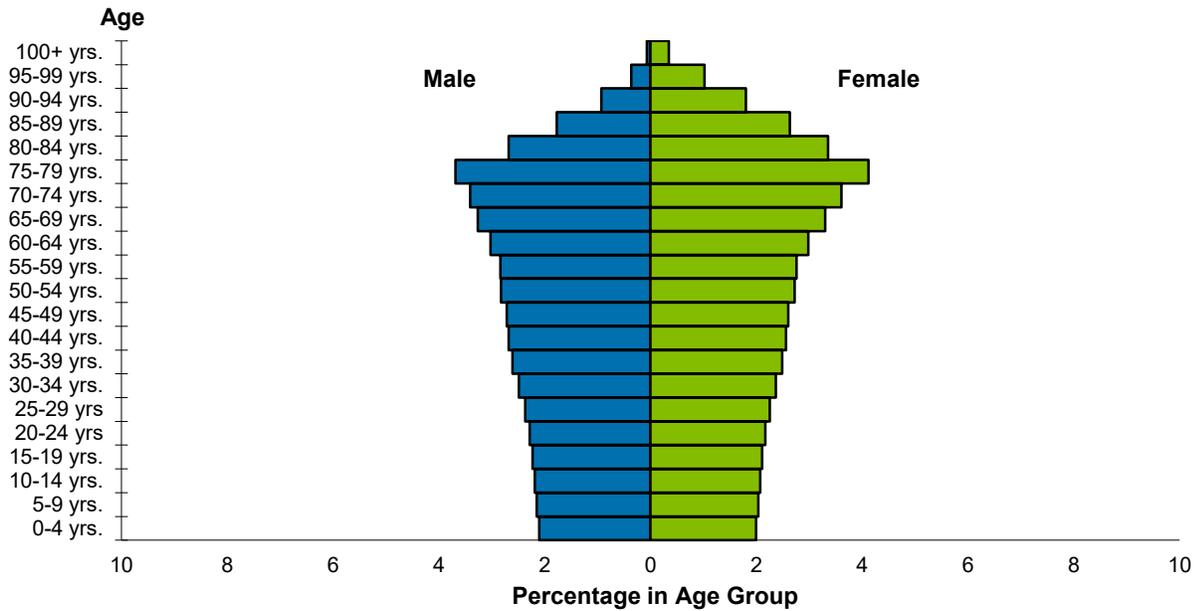
Source: UN Population Division — 2017 data, LIMRA International Research.

**Figure 3 — Population Pyramid: 2030**



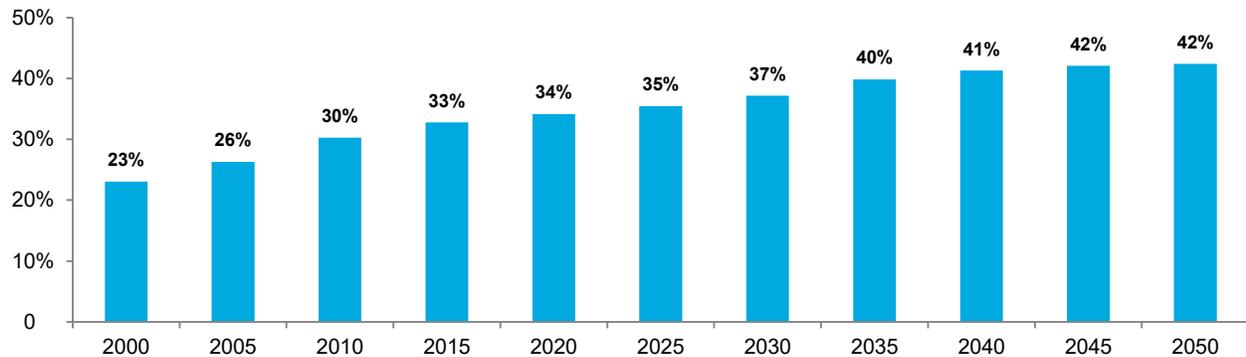
Source: UN Population Division — 2017 data, LIMRA International Research.

**Figure 4 — Population Pyramid: 2050**



Source: UN Population Division — 2017 data, LIMRA International Research.

**Figure 5 — Proportion of Age 60 Years and Over Among Total Population**



Source: UN Population Division — 2017 data, LIMRA International Research.

**Proportion of the elderly (age 60+ population) is likely to almost double from the turn of the century to 2050.**

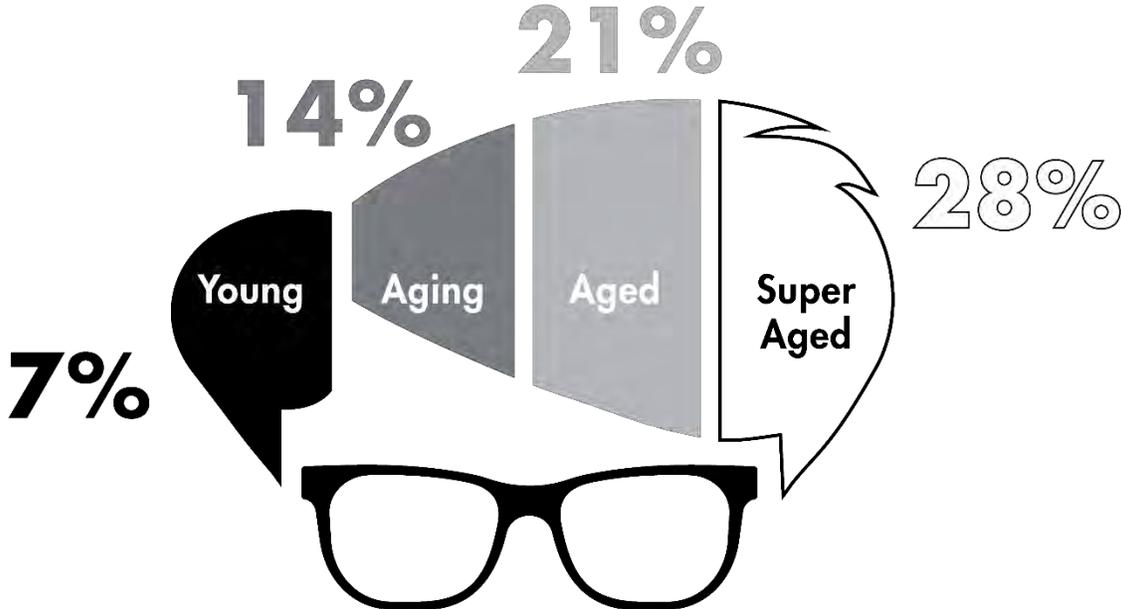
As the population structure of Japan becomes more top-heavy, the proportion of the elderly is also going to continue to increase. The proportion of the elderly (age 60+) is likely to increase from 23 percent of the overall population at the turn of the century to 42 percent by 2050, outpacing overall population growth. These trends threaten to exacerbate the challenges to the elderly support system.

Now, let us find out how rapidly the change will take place.



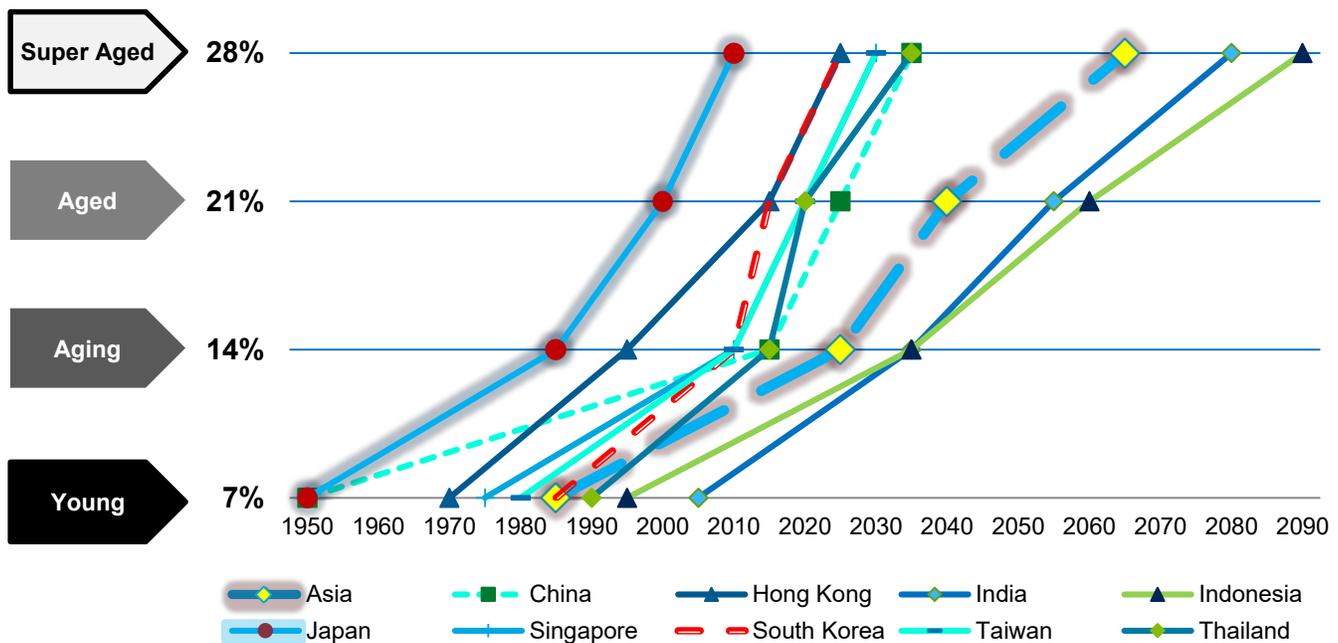
The speed of aging cannot be determined in isolation; it needs to be looked at objectively and relatively across Asian markets, which are in different stages of aging. For purposes of comparison, the study establishes four stages of aging:

- Young — when the proportion of those age 60 and over crosses 7 percent of the total population
- Aging — when the proportion of those aged 60 and over crosses 14 percent of the total population
- Aged — when the proportion of those aged 60 and over crosses 21 percent of the total population
- Super-aged — when the proportion of those aged 60 and over crosses 28 percent of the total population



**When the proportion of age 60+ versus the total population crosses the threshold of...**

Figure 6 — Phases of Demographic Transition



Source: UN Population Division — 2017 data, LIMRA International Research.

To better understand the magnitude of the transition we compared it with other developed Western countries and the few other Asian markets that may have started the aging process even earlier. Markets such as the United Kingdom and the United States are forecasted to move from aging to super-aged within a span of around 80 years. However, for Japan the shift from young to super-aged took around 60 years, which is slightly longer than quite a few Asian markets.

However, what is especially worrying for Japan is that its shift has not stopped or slowed after reaching super-aged. Even after the proportion of age 60+ in the population reached 30 percent in 2010, a proportion significantly higher than the super-aged category, it has continued to age further. In fact, the proportion of elderly is expected to increase until reaching a peak of 42.3% in 2055. Thereafter, it's likely to stabilize, but remain at elevated levels of more than 40 percent till 2100.

Worryingly, there is no expectation of a reversal in Japan's rapid and ongoing aging process. The more developed markets of the United Kingdom and the United States had much more time to prepare for an aging society, and nevertheless are not considered sufficiently well-prepared.

Japan's less robust appetite for immigrant foreign workers adds pressure to the aging-population challenge. As a result, increasing numbers of individuals have chosen to work beyond typical retirement age. In late 2016/early 2017, approximately 12.6 million Japanese aged 60+ years continued to work compared to 8.7 million in 2000.<sup>2</sup>

<sup>2</sup> As Japan ages, so too does its workforce: Economist, January 2017.

Japan has reached a level of aging that is beyond super-aged, and in the longer run its proportion of aged will continue to rise. Even though the number of elderly would not rise at the same rate in the next 35 years or so, what makes the scenario worse is that its overall population will shrink. This will add tremendous pressure on the market. Over the next few decades, the elderly population of Japan will rise from 42 million in 2015 to 46 million in 2050, which is an increase of almost 4 million in just 35 years.

**Figure 7 — Additional Age 60+ Populations by 2050 Versus 2015**



*Size of bubble represents absolute increase in age 60+ population (in millions)*

*Source: UN Population Division — 2017 data, LIMRA International Research.*

## LIFE EXPECTANCY, BIRTH RATES, AND POTENTIAL SUPPORT RATIO

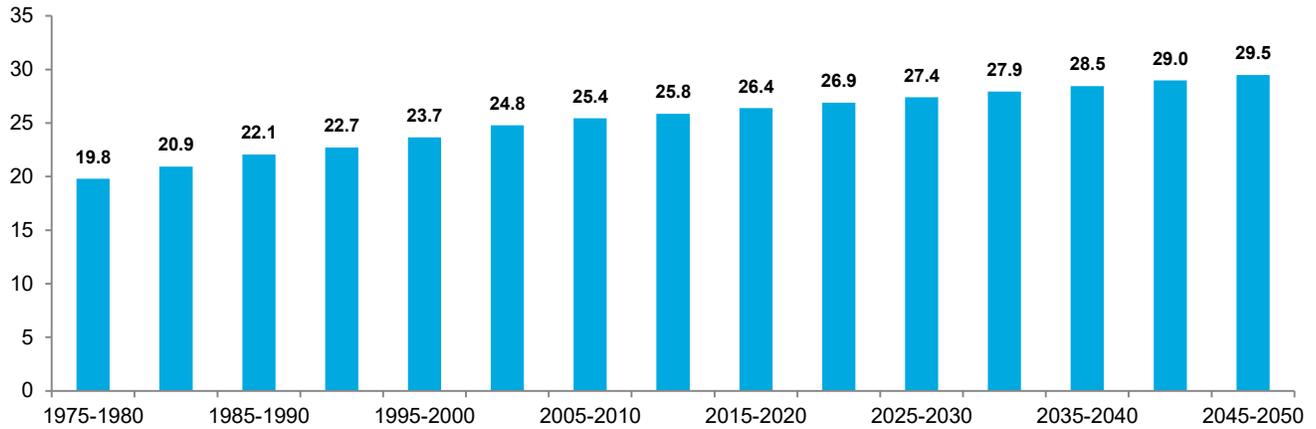
Another cause that led to the growth of the elderly population is the rising life expectancy. Over the last few decades, life expectancy has increased and will possibly continue to increase as a result of medical advances, improved lifestyle, and ability to afford healthcare, as well as a decline in both communicable and non-communicable diseases, among many other factors.

### *Going forward centenarians will be very common across Japan.*

Over the years, the life expectancy of the elderly population has increased gradually. Japan currently has the highest life expectancy in the world for those age 60, per UN Population Division data. Life expectancy at 60 years of age was 19.8 years in 1975 – 80; 26.4 years in 2015 – 20; and likely to reach 29.5 years by 2045 – 50.

Life expectancy was higher for the female cohort versus the male cohort. In 2015 – 20, life expectancy at 60 for males was 23.6 years versus 29 years for females. The disparity is expected to widen, with life expectancy for women at 60 years set to reach 32.2 years by 2045 – 50. With increased access to medical facilities and rising penetration of health and medical insurance, it would not be surprising if life expectancy were to increase at a slightly more rapid pace in the future. In fact, centenarians may be more and more common going forward.

**Figure 8 — Life Expectancy at Age 60 (in years)**



Source: UN Population Division — 2017 data, LIMRA International Research.

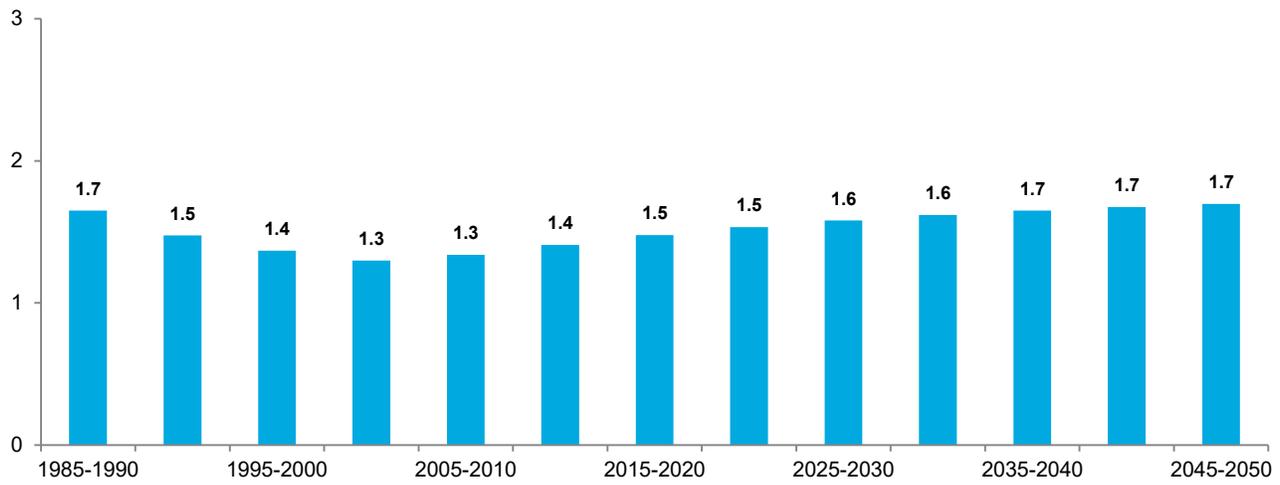
***Japan currently has the highest life expectancy at 60 years of age.***

One of the major reasons for the declining population is the declining birthrate. The early warning signs of a decline in population were observed in the 1960s when the birthrate (fertility) went down to 2.03. Since then, it has been on a downtrend, with the exception of a slight rise in the 1970s before declining again. To maintain a constant level of population, the fertility rate must be at least 2.1. If this minimum rate of 2.1 is not maintained, the population is likely to decline in the long term. The fertility of Japan declined from 2.13 per woman in 1970 – 75 to 1.48 in 2015 – 2020. The trend toward a relatively low birthrate is likely to continue in spite of increasing marginally to 1.7 by 2045 – 50. When the birthrate falls below the minimum replacement level of 2.1 at the same time that life expectancy is increasing, population aging is triggered. The declining fertility rate will contribute significantly towards the growth of the elderly population in Japan.

***A decline in the birth rate along with rising life expectancy will trigger population aging.***

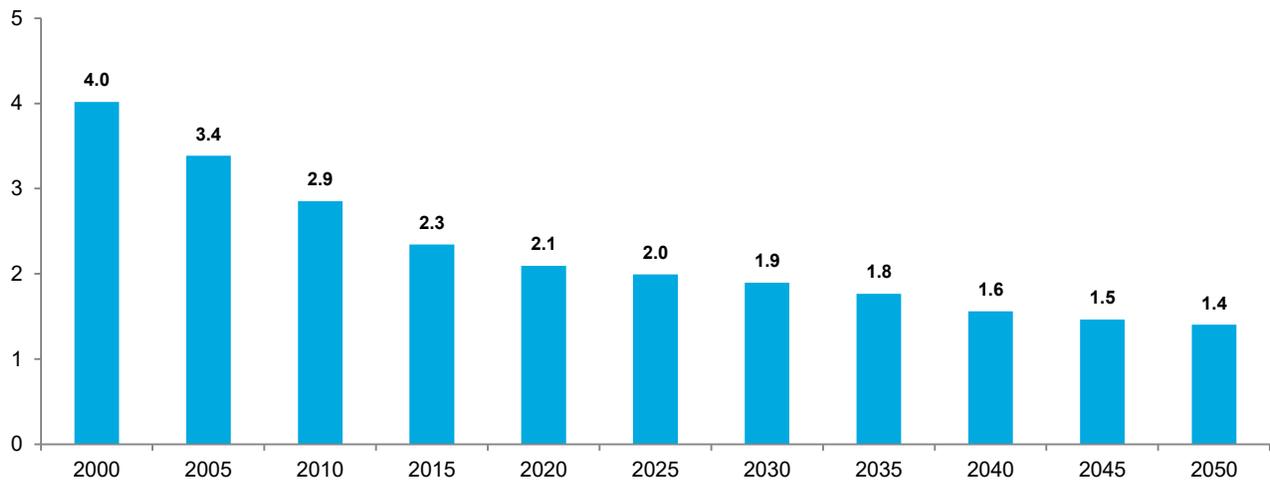


**Figure 9 — Total Fertility (live births per woman)**



Source: UN Population Division — 2017 data, LIMRA International Research.

**Figure 10 — Potential Support Ratio**



Source: UN Population Division — 2017 data, LIMRA International Research.

Note: Potential support ratio = ratio of population 15-64 per population age 65+.

The potential support ratio indicates that the responsibility of supporting the needs of the elderly population is likely to increase on the relatively younger working-age population. The potential support ratio indicates a steady and constant deterioration between 2000 and 2050. In fact, the ratio is likely to deteriorate to 1.4:1 by 2050 from 4:1 in 2000. Further, by the end of this century, it is estimated to remain at the low level of 1.4:1.



As a result, in future, there will be fewer than 2 people in the labor force supporting every person aged 65 and over. This is likely to pose tremendous challenges to the nation's health, retirement, and pension systems, perhaps at a crisis level.

In addition, the social fabric of the family support system would drastically change, as there would be a smaller young population to support elderly parents. This phenomenon is apparent in the decline of the average size of households from 3.3 members per household in 1980 to 2.7 in 2000; household size is projected to fall to 2.2 members by 2025.<sup>3</sup> Even though some elderly may receive financial support from their children, certain geriatric needs will remain unmet.

## KEY CHALLENGES DUE TO THE AGING OF THE POPULATION

- Socio-economic challenges due to aging will become more and more pronounced. Population aging combined with rising longevity, declining morbidity, and medical care-inflation risks will pose immense challenges.
- Japan is in a state of advanced aging; the economic implications from a shrinking labor force cannot be ignored.
- The demand for healthcare, long-term care, and pension provisions will definitely be on the rise. This rising demand clearly highlights the increasing importance of preparing for retirement through pensions, personal savings, and healthcare.
- As a market experiences population aging, it needs to prepare for unique and pressing challenges. In this environment, the insurance industry has a significant opportunity to fill the need with bespoke insurance products in life protection, savings, pensions, and health segments.

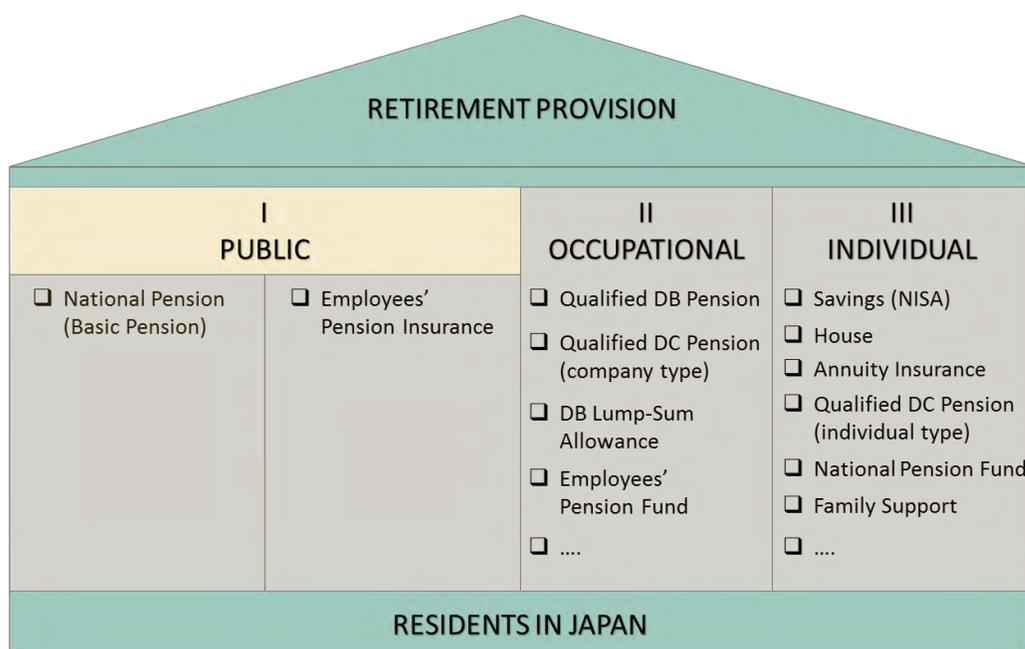
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<sup>3</sup> Timetric Data 2017.

# Current Pension Structures

The Japanese pension system is one of the oldest in Asia. It was initially introduced for the army and navy around 1875 and expanded to include other civil servants. Pensions in the private sector started much later, after the Ministry of Health and Welfare was established in 1938, and the workers' pension law was subsequently introduced. Over the decades, it has undergone tremendous change to fit the requirements of an economically booming Japan and, then, an aging society.<sup>4</sup> Japan primarily has Kokumin Nenkin (government schemes), Kosei Nenkin (employees' pension schemes), and private market schemes. Some of the major pension options available in Japan are as follows.

Figure 11 — Pension Pillars of Japan



Source: OECD-ADBI Roundtable. Yas Fujii, Chair of Pensions and Employee Benefits Committee of the International Actuarial Association.

## NATIONAL PENSION SYSTEM

The National Pension System (NPS) was introduced in 1959, and thereafter the national Pension Act was fully enforced by 1961. It covers all residents of Japan (including foreigners) aged 20 years to 59 years. The national pension scheme has three broad categories:

- Category I: Covers self-employed, farmers, and students as long as they are above 20 years age and younger than 60 years age. Unemployed or disabled individuals are also covered under this plan and are eligible for premium-payment exemption, subject to income restrictions.
- Category II: Covers employees who are working for an organization, either public or private. However, the private and public pensions are managed separately and have a slightly different structure.

<sup>4</sup> <http://www.mhlw.go.jp/english/org/policy/dl/p36-37d.pdf>. Accessed 2018.

- Public sector: The contributions from public-sector employees are covered by the Mutual Aid Association. The Mutual Aid Association offered generous benefits for pensioners, before the benefits were normalized to the Employee Pension Insurance in October 2015.
- Private sector: Private-sector employees are covered by the Employee Pension Insurance. The pension premiums are deducted by the employer and are based on the employee's remuneration.
- Category III: Dependents of those contributing under Category II are covered in this scheme. It is managed by the employee's plan in which the spouse is a participant.<sup>5, 6</sup> The individual does not pay premiums.

It also allows Japanese citizens, residing abroad to contribute on a voluntary basis. To receive basic pension upon reaching the age of 65, an individual has to be covered under the National Pension and Employees' Pension Insurance systems and must have contributed for a period of at least 10 years. Even though the primary eligibility age to receive pensions is 65 years, individuals can either opt to receive early pension benefits beginning at age 60 years or delay pensions until age 70 years. However, the amount of the payment is based on the start date. NPS also offers individuals the option to receive additional pension benefits (upon additional voluntary contribution), including Disability Basic Pension, Survivors' Basic Pension, Widow's Pension, and lump-sum withdrawal (only for foreign nationals), subject to certain qualifying categories.<sup>7</sup>

## OCCUPATIONAL PENSION

Employee Pension Insurance (Kosei Nenkin): The employees' pension fund is primarily intended for employees working for private companies that employ over 500 employees. These plans are defined benefit plans that provide a part of Employees' Pension Insurance benefits on behalf of the government, as well as extra supplemental benefits.

Thus, the sponsoring employer assumes the risks and returns of managing part of the exposure related to the Employees' Pension Insurance. In the past, the arrangement enabled them to generate extra returns. Recently, though, sponsors have struggled to close a looming funding gap due to low interest rates and poor investment returns.

This led to code reform in 2014. Subscribers to the employees' pension pay a premium in addition to their contribution to the NPS. Hence, they receive higher pension benefits on retirement. Employees of these private companies are automatically enrolled in NPS as soon as they enroll in the employee pension. In addition to Japanese nationals, foreigners working in Japan are also eligible for employee pension insurance. Premiums are generally deducted from the salary of the employee.<sup>8</sup> If the employees set up the pension funds, the monetary pools are managed by independent entities that are in turn managed by a committee comprising representatives of both employers and employees. This committee is the main decision maker on how the funds are to be managed.

In 2014, new regulations were passed enforcing the dissolution of the employee pension funds. The law prohibits the setting up of employee pension funds, and existing employee pension funds should be dissolved or converted into other pension plans. Although these plans were very popular in the late 1990s, they started facing challenges owing to poor investment returns.<sup>9</sup>

<sup>5</sup> <http://www.ipss.go.jp/s-info/e/Jasos2001/p7-15.html>. Accessed 2018.

<sup>6</sup> <http://www.pensionfundsonline.co.uk/content/country-profiles/japan/103>. Accessed 2018.

<sup>7</sup> <http://www.nenkin.go.jp/international/english/nationalpension/nationalpension.html>. Accessed 2018.

<sup>8</sup> [https://www.tokyo-icc.jp/guide\\_eng/life/01.html](https://www.tokyo-icc.jp/guide_eng/life/01.html). Accessed 2018.

<sup>9</sup> <https://www.towerswatson.com/en/Insights/Newsletters/Global/global-news-briefs/2014/04/japan-regulations-issued-on-the-dissolution-of-employee-pension-funds>. Accessed 2018.



**New corporate pension schemes:** Due to the lack of sustainability of existing pension schemes, separate defined benefit and defined contribution plans were introduced in early 2000 through the implementation of legislation. One of the acts converted the Tax Qualified Pension Plan, a traditional defined benefit pension scheme with funded assets in existence since 1962, into a new defined contribution form supervised by the Ministry of Health, Labour and Welfare.

**Defined benefit:** A typical defined benefit (DB) plan that has funded assets can be in the form of a contract between employer and employees or part of a fund established by one or a group of employers. However, the formation of such contracts or funds require the approval of the Ministry of Health, Labour and Welfare. Both employer and employee received a tax benefit on their contributions. The gains from investments were made tax free until 2019.

**Defined contribution:** Similar to defined benefit plans, corporate defined contribution (DC) plans can be established by a single employer or a group of employers. The pension funds are generally managed through a pension management corporation, like an insurer, trust bank, or fund manager. It is mandatory for these organizations to be registered with the Ministry of Health, Labour and Welfare.

Professionals who are self-employed or whose employers do not offer pension plans can also subscribe to an individual defined contribution plan. These funds are sponsored by the National Pension Fund Association, a government organization. The plans are portable should an individual move to a new organization that offers a defined contribution plan.

One must also note that, even though there were certain earlier restrictions on participation in defined contribution plans, an amendment was passed in 2016 to allow more participants to qualify. Going forward, dependent spouses of private-sector employees and employees of public-sector organizations, would be able to enroll in DC plans. However, it is possible for employees covered by corporate-sponsored DC plan to subscribe to an individual DC plan if some conditions are met.<sup>10</sup>

**Nippon Individual Savings Account Program:** Nippon Individual Savings Account Program (NISA) was introduced in Japan in January 2014. It was modelled along lines similar to those of the British ISA (individual savings account). The primary objective was to promote savings among individuals, and it was targeted at residents of Japan above the age of 20 years. Individuals receive tax exemption on contributions on capital gains and dividends on an investments up to JPY1.2 million, within a span of five years. In April 2016 the scheme was expanded to include Junior NISA, which allows guardians of individuals under the age of 20 years to contribute on their behalf. The limit of Junior NISA contribution is JPY800,000 per year. NISA allows investments in stocks, bonds, exchanged traded funds (ETFs), and mutual funds; however different brokerage charges apply.<sup>11</sup>

A regular investment NISA (積立) was to be introduced, which has a slightly lower contribution limit of JPY400,000, with a duration of 20 years. Only mutual funds will be available, and, as the name suggests, people are encouraged to set up regular monthly transfers to the account. By September 2017, around 150 funds were eligible for NISA contributions.<sup>12, 13</sup>

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<sup>10</sup> <https://www.towerswatson.com/en/Insights/Newsletters/Global/global-news-briefs/2016/06/japan-new-legislation-changes-defined-contribution-market>. Accessed 2018.

<sup>11</sup> <https://smartmoneyasia.com/2017/08/07/nisa-the-japan-individual-savings-account/>. Accessed 2018.

<sup>12</sup> <https://www.japantimes.co.jp/news/2017/09/22/business/fsa-shakes-asset-management-firms-cheap-funds-get-individuals-move-cash-stocks/#.Wz78ddUzapo>. Accessed 2018.

<sup>13</sup> <http://www.retirejapan.info/nisa.html>. Accessed 2018.

# Sustainability of Pension Systems

The Pension Sustainability Index (PSI) of Allianz analyses the fundamentals of pension systems and the key changes that impact them. To arrive at a ranking that reflects the long-term sustainability of the pension system, Allianz analyzed 54 markets across the world, along with Japan, based on an extensive list of parameters.

The PSI primarily uses the following three sub-indicators to measure the sustainability of a specific pension system:

- Demographic changes
- Public finances
- Design of the pension system

Figure 12 — Pension Sustainability Index

Sub-indicators	Status (0.75)**	Dynamics (0.25)**
Demographics	Old-age dependency ratio (OAD)*	Change in OAD* until 2050
Pension system	Level of pension benefit from 1 <sup>st</sup> pillar and coverage of workforce	Change in level of pension benefit
	Legal/effective retirement age	
	Strength of funded pillar and reserve fund (as % of GDP)	Reforms passed
Public finances	Pension payments / GDP	Change of pension payments / GDP until 2050
	Public indebtedness / GDP	
	Need for welfare support	

\*Ratio of ≥ 65 years of age to 15 to 64 years of age

\*\*Weighting

Source: Allianz Asset Management, International Pensions.

In 2016, Japan ranked 46th out of the 54 markets included in the overall Pension Sustainability Index. Although a jump of four places from its 2014 overall ranking, Japan’s overall standing remains low. Within the sub-parameters of the index, it ranks 50<sup>th</sup> in public finance, owing to a phase of low or negative economic growth over the past years, and 52<sup>nd</sup> in demographics due to its aging society. Nevertheless, it ranks at a relatively impressive 18<sup>th</sup> in pension systems.



**Table 3 — Ranking of Pension Sustainability Index, Asia — Allianz<sup>14</sup>**

Region	TOTAL		Demographics	Public Finance	Pension System
	Score	World Ranking	World Ranking	World Ranking	World Ranking
Hong Kong	7.1	14	43	10	13
Singapore	6.6	24	45	18	29
S. Korea	6.5	33	53	11	25
Indonesia	6.2	39	7	7	50
Taiwan	6.2	40	54	17	26
Japan	5.8	46	52	50	18
India	5.8	48	6	6	54
China	5.0	53	44	24	51
Thailand	4.9	54	47	19	52

*Note: Ranking of markets covered in the study.*

<sup>14</sup> [https://projectm-online.com/app/uploads/Allianz\\_2016\\_Pension\\_Sustainability\\_Index.pdf](https://projectm-online.com/app/uploads/Allianz_2016_Pension_Sustainability_Index.pdf).

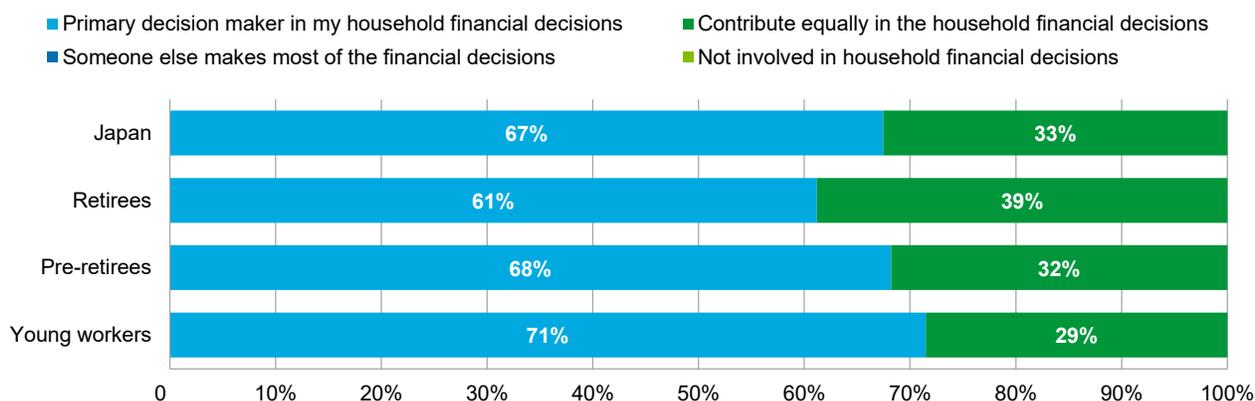
Note: The sub-indicators consider both the present status and future outlook to assign a score of 1 – 10 (1 indicating the lowest sustainability and 10 indicating the highest sustainability).

# Retirement From the Consumer Perspective

This research is structured to determine how the decision makers or people who contribute to financial decision making plan to tackle the challenges of retirement. Accordingly, it surveyed those who are primary decision makers or those who contribute equally in making financial decisions.

**Figure 13 — Respondents by Decision Authority**

Responding to the question: “How would you describe your role in making financial decisions for your household?”



All of the markets covered in the overall study are quite different from one another, both economically and in the maturity of their pension systems. In fact, there are significant cultural differences within a market as well.

Japan shares a family culture that is quite similar to other Asian markets. Historically, much like other Asian markets, Japan has gradually, though not entirely, moved away from three-generation households. Results from the survey showed that half of the respondents depend on their spouses financially. This trend is much stronger among the comparatively older generation of pre-retirees and retirees than among young workers at a higher level than the overall Asia average. However, among the older generation of pre-retirees and retirees, fewer child/children are dependent on their parents, compared to Asia overall. Among Japan’s young workers, more children are dependent on their parents, and a smaller proportion of spouses are dependent. It seems likely that the children are still very young and spouses are still working. It’s also worth noting that participation in the workforce among women has also increased over the last decade or so.<sup>15</sup>

<sup>15</sup> <https://www.economist.com/asia/2017/11/18/japanese-women-are-working-more-but-few-are-getting-ahead>. Date accessed 2018.



**Table 4 — Financial Dependence**

Responding to the question: “Which of the following individuals are financially dependent on you?”

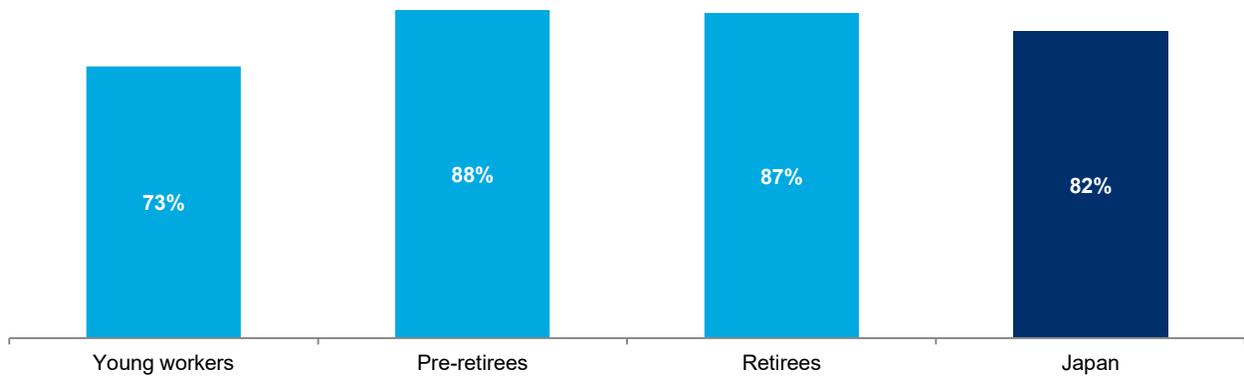
	Young workers	Pre-retirees	Retirees	Japan
Spouse	38%	56%	57%	50%
Child/children	39%	49%	19%	37%
Own Parents (Father and Mother)	25%	17%	6%	17%
Siblings (Brother/Sister)	1%	2%	0	1%
Spouse's Parents	3%	1%	2%	2%

Even though the number of children in Japanese families has declined over the decades, a significant number still contribute financially to the care of their parents. Almost 25% of young workers have parents who are dependent on them. However admirable, it is nevertheless challenging financially, especially considering the long life expectancy of Japanese people. Financial planning would seem prudent in the circumstances.

However, 82 percent of respondents indicated that they do not work with any financial professionals for household financial decisions, compared to the Asia average of 60 percent — a worrying finding. Young workers have a slightly higher tendency to work with financial professionals, but still well below the Asia average.

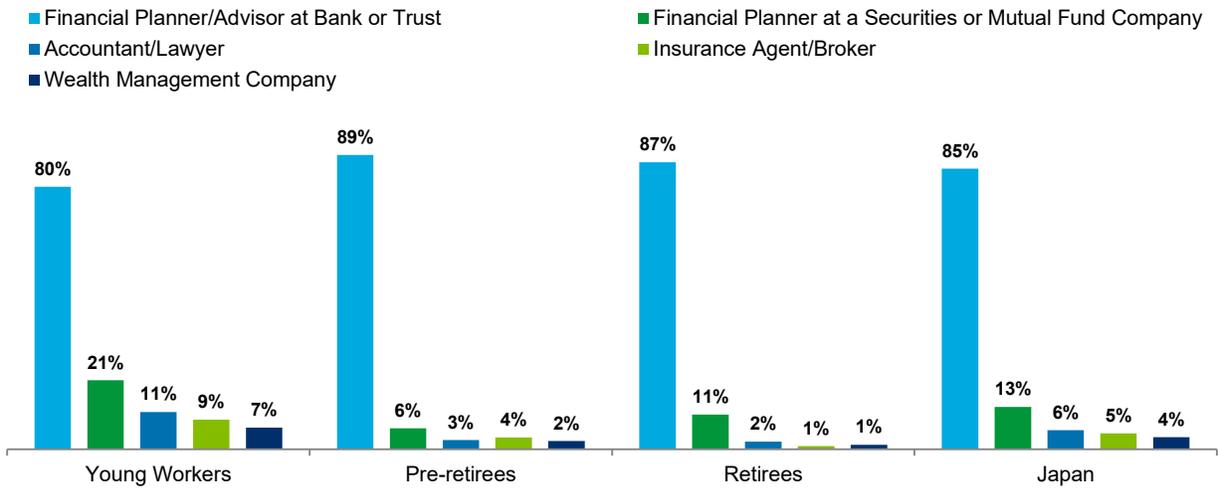
**More than 80 percent of respondents do not work with financial professionals for household financial decisions.**

**Figure 14 — Do Not Work With Any Financial Professionals to Help With Household Financial Decisions**



**Figure 15 — Those Who Work With Financial Professionals, Work With ...**

Responding to the question: “Does your household typically work with any financial professionals to help with your household financial decisions?”



While a significant proportion of respondents do not reach out to financial professionals for household financial decisions, among those who do, a majority prefer to work with a financial planner/ advisor at a bank / trust company across generations or age bands. Some of the young workers also exhibited some affinity to working with financial planners at securities or mutual fund organizations. They are possibly less risk averse compared to previous generations.

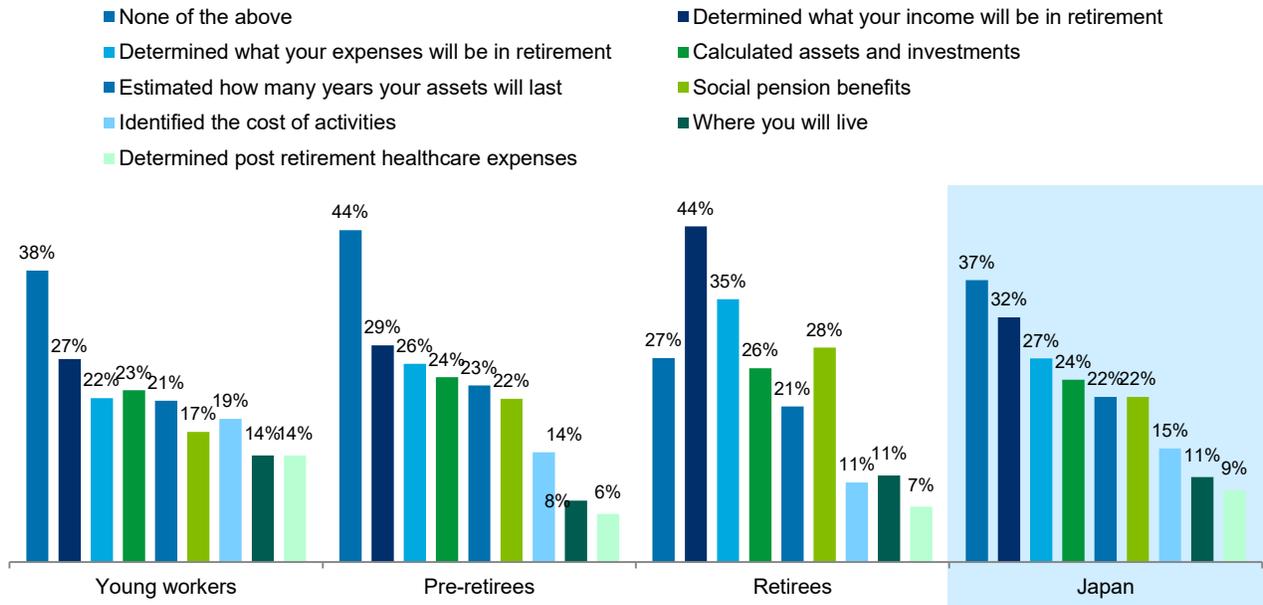
A significant 37 percent of respondents across Japan said they have not taken any initiatives whatsoever in retirement planning. This response was particularly high among pre-retirees, where 44 percent of them have not taken any initiatives. Considering the current state of demographics in Japan, this is extremely alarming. Among the initiatives that were undertaken by the Japanese respondents, the most frequent action among retirees was to determine their income in retirement. In addition, quite a few also took the initiative to determine their retirement expenses.

**More than one third of respondents did not take any initiatives related to retirement planning.**



### Figure 16 — Retirement Planning Initiatives

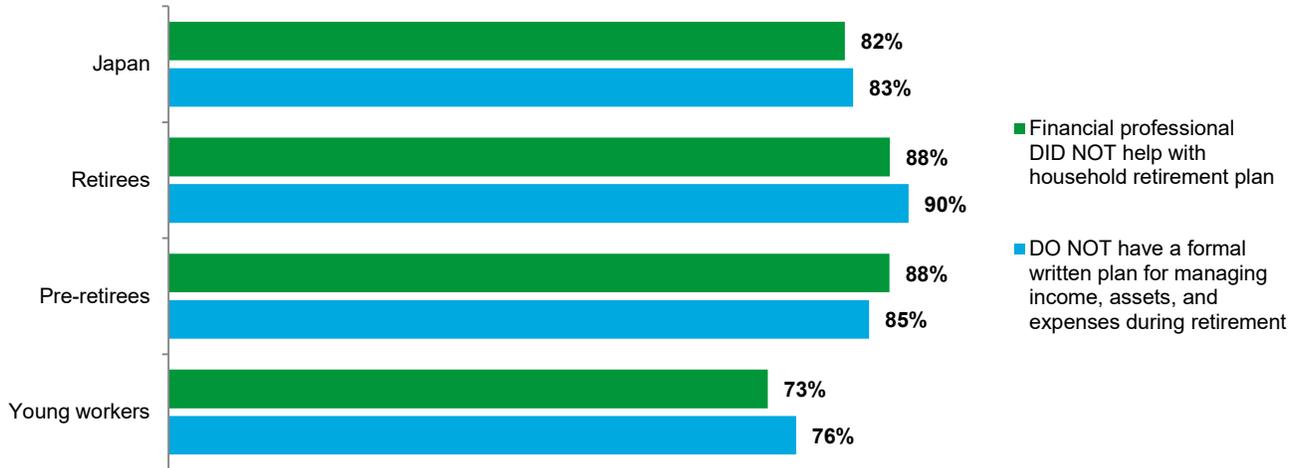
Responding to the question: "Which of the following retirement planning activities have you done?"



**More than 80 percent of respondents do not work with financial professionals for household retirement planning and do not have a formal retirement plan.**

### Figure 17 — Retirement Planning

Responding to the question: “Does your household have a formal written plan for managing your income, assets, and expenses during retirement? Did a financial professional help your household create your plan?”



Not only do the respondents not seek professional help for regular financial decisions, they also do not seek help from financial professionals on retirement planning. More than four fifths of the respondents did not seek help for a financial professional for their retirement planning, especially among retirees. However, 56 percent the young workers from the Shikoku region stated they have a formal written plan for managing their income, assets, and expenses during retirement. In addition, 50 percent of the young respondents from the same region stated they have a formal written plan. Nevertheless, the lack of planning remains a major cause of concern for the industry and the nation as a whole.

**Table 5 — Retirement Concerns and Actions: Agree With the Following Statements**

Responding to the direction: “For each of the following statements pertaining to your retirement concerns and actions, please indicate if you strongly agree, somewhat agree, neither agree nor disagree, somewhat disagree, or strongly disagree.”

	Young workers	Pre-retirees	Retirees	Japan
<b>Confidence Benchmark</b>				
I will be able to live the retirement lifestyle I want	28%	23%	35%	28%
I have enough savings to last until the end of my retirement	21%	16%	23%	20%
<b>Need Help</b>				
I would like my employer to make available more comprehensive information and advice on retirement savings and planning	37%	25%	19%	30%
<b>Action Statement</b>				
I would be willing to purchase or plan to purchase a financial product that will provide guaranteed lifetime income	27%	21%	16%	22%
I am currently very involved in monitoring and managing my retirement savings	27%	15%	20%	21%
<b>Challenge and Mindset</b>				
I do not trust financial institutions with my money	26%	23%	25%	25%
It is rare to hear people talk about retirement planning in the workplace	34%	40%	46%	38%
I have/will inherit property from parents/relatives	26%	26%	30%	27%

Note: Above numbers represent summed-up options of “Somewhat Agree” and “Strongly Agree.” The top-three options per market have been highlighted.

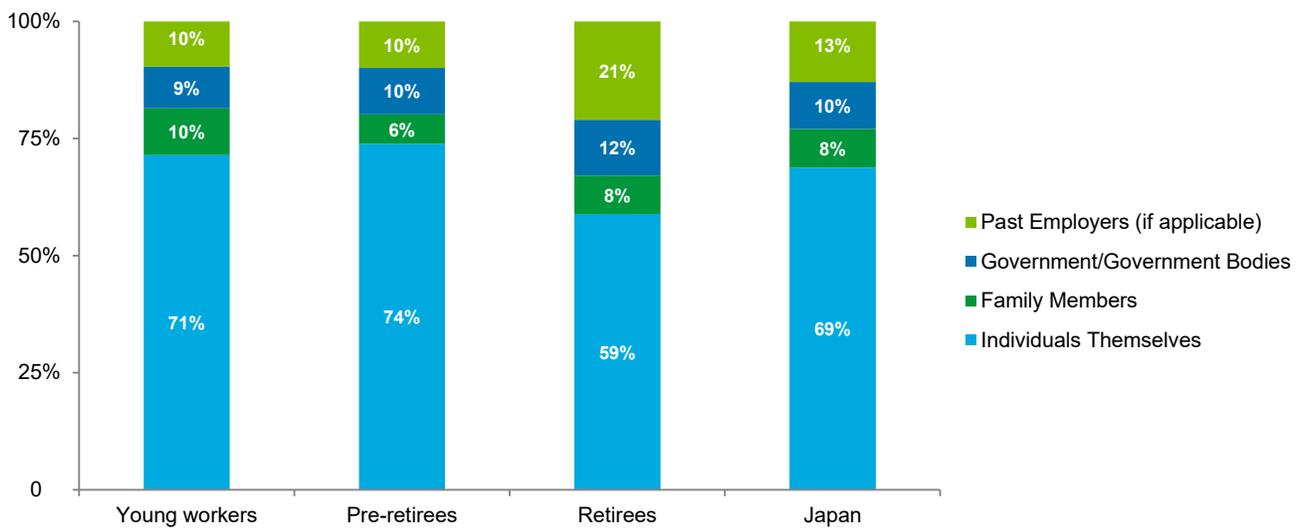
**Most are willing to trust financial institutions; the level of trust is particularly high among young workers.**

“It is rare to hear people talk about retirement planning in the workplace,” was the top response to the question regarding retirement concerns. This response was much more frequent among the relatively older generations of retirees and pre-retirees, possibly indicating that they no longer considered retirement as their top priority. It is also worth noting that the working segment of pre-retirees and young workers would like their employers to make available more comprehensive information and advice on retirement savings and planning. Further, there were some expectations that they have/will inherit properties from parents and relatives.

The level of confidence in the ability to lead a comfortable retired life also garnered some attention among respondents, especially among retirees and young workers. Retirees are confident either that they have found a way to manage their expenses in retirement or believe they can rely on their past employers.

### Figure 18 — Primary Responsibility for Providing Retirement Funds

Responding to the question: “Who should primarily be responsible for providing retirement funds?”



### *Dependence on family and government for retirement income is quite low.*

Almost 70 percent of respondents across Japan take responsibility for funding their retirement. However, there is a slight difference across generations. The proportion of respondents who consider it their own responsibility is much higher among pre-retirees (74 percent) and young workers (71 percent), when compared to retirees (59 percent). This points to a change in the mindset of the younger generation, which is willing to be proactive and manage their future needs, without depending on past employers. The proportion of respondents who would like to depend on the government or family for their post-retirement income is generally quite low.

Individuals taking responsibility for their retirement income also indicated they are planning to do so through their personal savings and investments. Another point worth noting is that almost 70 percent of overall respondents and 80 percent of the young workers said they would continue to work full/part-time to generate income beyond age 60, thereby extending their working lives into the typical retirement phase. This is in line with the government's intention to raise the pensionable retirement age to 65 years by 2025. In fact, many private companies have already or are planning to raise the retirement age.<sup>16</sup> In addition, there were considerations of increasing the optional retirement to 71 years.<sup>17</sup>

<sup>16</sup> <https://www.reuters.com/article/us-japan-companies-retirement-age/most-japanese-companies-look-to-raise-retirement-age-reuters-poll-idUSKBN1A42P4>. Date accessed 2018.

<sup>17</sup> <https://www.japantimes.co.jp/news/2018/02/17/national/politics-diplomacy/government-oks-plan-hike-pension-collection-age-71/#.Wx0N6FUzapo>. Date accessed 2018.



The arguably traditional source of retirement income, i.e., dependence on family, was also not the most favored income source. In fact, it does not figure among the top-five sources of income. There is also an apparent contradiction in the fact that, while most indicated it is not the primary responsibility of government /government bodies to fund retirement income, almost 61 percent like to depend on social pension/other local pension for retirement income.

There was also some interest in Voluntary Enterprise Annuity / voluntary plans set up by an employer (45 percent). Other sources of income such as inheritance from a family member, a reverse mortgage, or income from rental property were not among the most favored. It's worth noting that in Japan many individuals purchase a house at the mid-point in their careers, borrowing almost 3x – 10x annual gross salary, to be repaid over two to three decades. This practice allows them to stay in their own homes with little or no mortgage payments in retirement, but it also limits their ability to save for retirement during their working years.

**Table 6 — Anticipated or Current Income Source in Retirement**

Responding to the direction: “Indicate which of the following sources of income your household currently receives: [IF WORKER] Indicate which sources of income you expect to receive during retirement.”

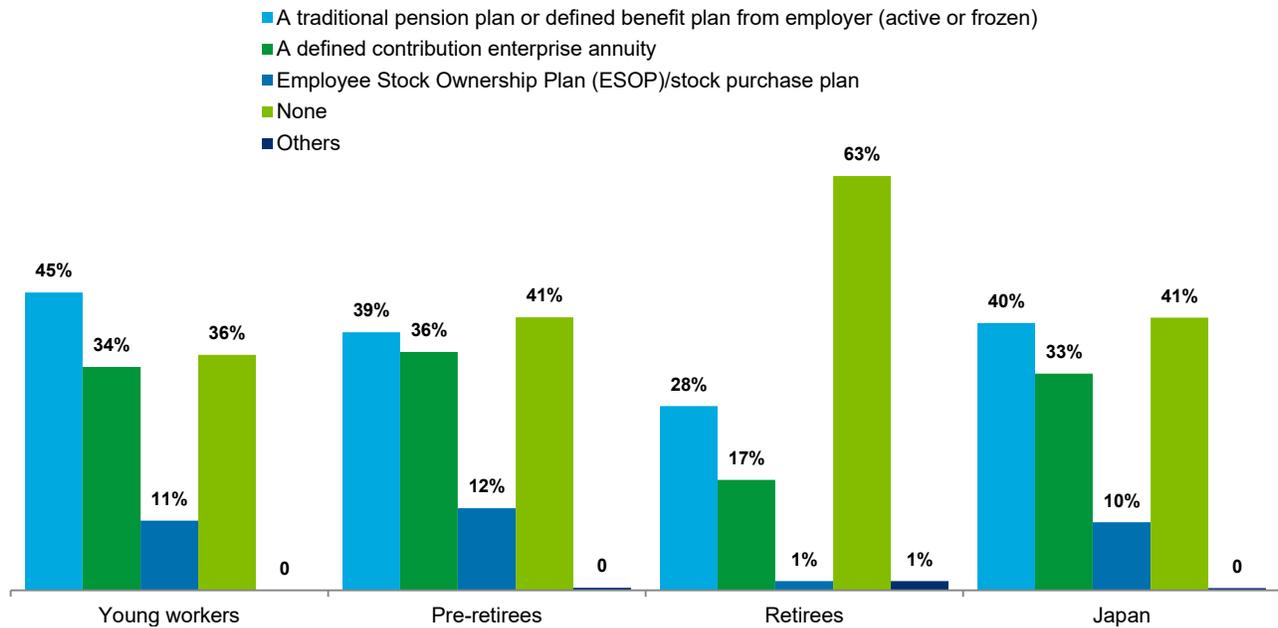
	Young workers	Pre-retirees	Retirees	Japan
Personal savings and investments	75%	76%	71%	74%
Full/Part-time job earnings	80%	71%	52%	69%
Social pension/Other local pension	57%	62%	67%	61%
Voluntary Enterprise Annuity/Voluntary plans set up by employer	46%	47%	40%	45%
Life insurance	47%	46%	32%	42%
Inheritance from death of a family member	35%	25%	19%	27%
Family member assistance (including children)	27%	15%	11%	18%
Rental property	21%	15%	13%	17%
Reverse mortgage	19%	10%	8%	13%

Note: Above numbers represent summed-up options of “Major Source” and “Minor Source” out of the overall options of “Major Source,” “Minor Source”, and “Not a Source.”

**Eighty-three percent of respondents indicated they do not have a formal written retirement plan, and 69 percent suggested that they will continue working for retirement income; possibly indicating a sense of hopelessness.**

### Figure 19 — Retirement Plan Available Through Current Employer, Work, or Profession

Responding to the question: “Which retirement savings plans are available to you through your current employer, work, or profession?”  
Please select all that apply.



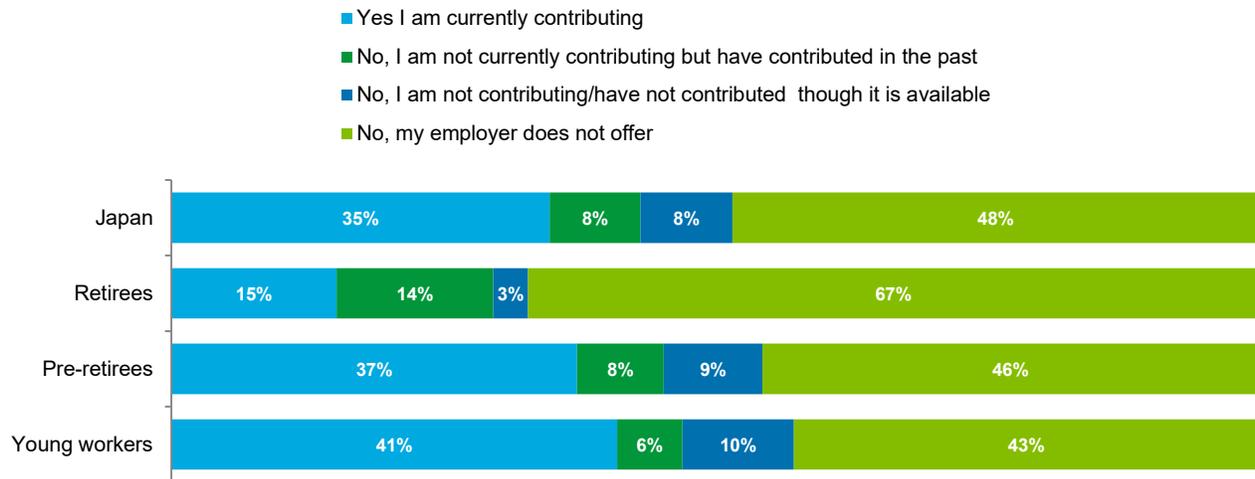
*Definitions: A defined benefit plan is a retirement plan that an employer sponsors, where employee benefits are computed using a formula that considers factors such as length of employment and salary history. A defined contribution plan is a retirement plan in which a certain amount or percentage of money is set aside each year by a company for the benefit of each of its employees. Employees contribute to the plan, and the sponsor company generally matches the employee contributions. The defined contribution plan places restrictions that control when and how each employee can withdraw these funds without penalties.*

An astonishing 41 percent of the respondents indicated they did not contribute to retirement plans through their employers. However, among those who had access to retirement savings plan through employers, the majority indicated that they had access to a defined benefit enterprise annuity and approximately a third stated they had access to defined contribution plans. Pre-retirees had a higher proportion of defined contribution annuity plans, and more young workers had access to defined benefit plans. Not many had access to employee stock ownership plans.



### Figure 20 — Currently Contributing or Have Contributed to Any Employer-Sponsored Retirement Savings Plans

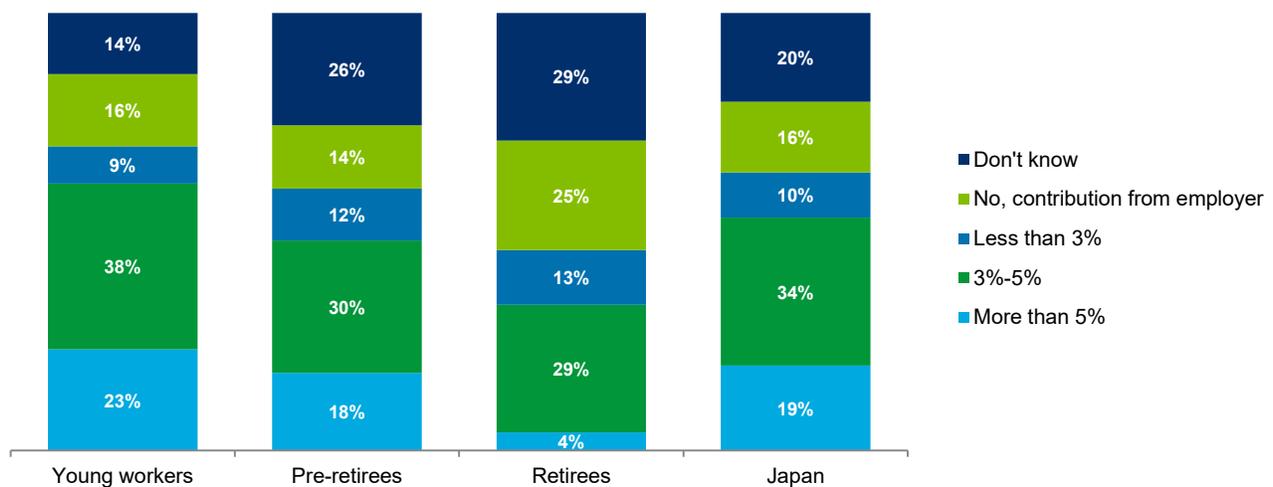
Responding to the question posed to those who are working full time for pay or are self-employed / family business: “Are you currently contributing or have contributed to any employer-sponsored retirement savings plans, like an enterprise annuity (or provident funds)?”



Across Japan, 48 percent of respondents stated that their employers do not offer any employer-sponsored retirement savings plans, a much higher level than the Asia average of 23 percent. Among those who do have access to such plans, 35 percent indicated they are contributing, a significantly lower proportion than the overall Asia average of 59 percent. Even after considering the proportion of respondents who have contributed in the past, the overall contribution rate is much higher among the younger generations of young workers and pre-retirees than among retirees.

### Figure 21 — Extent of Employer-Matching Contributions

Responding to the question: “At what level does your employer currently match your contributions to the Defined Contribution retirement savings plan(s) they offer (e.g., 50 cents on the dollar for the first 6 percent of pay contributed)?”

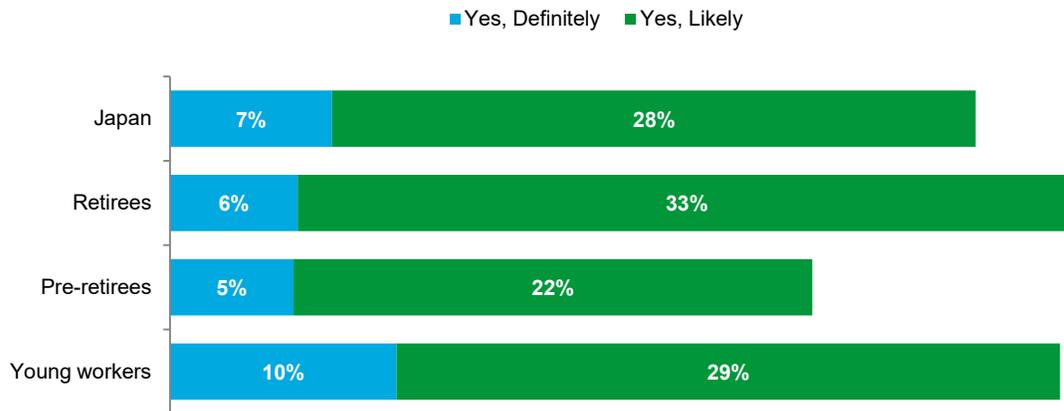


Almost a fifth of respondents revealed that they received employer-matching contributions that are more than 5 percent of their pay; and more than a third said that they receive contributions of around 3 percent – 5 percent of their pay. Approximately 16 percent of respondents did not receive any contribution from their employers. A significant proportion of young workers (38 percent) received around 3 percent – 5 percent, matching contribution from their employers.

In Japan, the employer contribution is primary in defined contribution plans. Employee contributions are allowed, but they are not tax advantageous and must be lower than the employers’ contributions and the legal limit. Defined benefit plans tend to be less popular in Japan.

**Figure 22 — Adequacy of Income from Employer-Sponsored Pension or Social Pension to Cover Basic Expenses in Retirement**

Responding to the questions: “Is the amount of income obtained from social pension and employer-sponsored defined benefit pension enough to provide for your basic living needs? Do you expect the amount of income obtained from social pension and employer-sponsored defined benefit pension enough to provide for your basic living needs in retirement?”



Note: The answer options provided were, “Yes, Definitely,” “Yes, Likely,” “No, Unlikely,” “No, Definitely Not,” “Don’t Know.” However, for ease of viewing only the options of “Yes, Definitely” and “Yes, Likely” are shown.

A significantly lower proportion of Japanese respondents, at 35 percent, said employer-sponsored pension or social pension would be adequate to cover basic expenses in retirement, compared to the Asia average of around 56 percent. The level of confidence in the adequacy is the lowest among pre-retirees. The confidence level among young workers is slightly higher, but still much lower than the overall Asia average.

Given the willingness of some respondents to accept responsibility for retirement planning and the multiple sources of retirement income that the respondents aspire to have, consumers should ideally have an appetite for investments to fund their retirement years, considering they also said they want to generate income from savings and investments during retirement.

**A significant portion of respondents do not know how to generate income from savings in retirement.**

Even though the preferred method to generate retirement income from investments varies across generations, a significant proportion of the respondents stated that they “do not know” how to generate income from their savings. In fact, it was the top choice among most all respondents surveyed. In addition, retirees and some pre-retirees stated, “My household has no intention of using retirement savings for income.” So, how do respondents plan to generate income in retirement, unless they plan to continue working? The lack of interest in generating income from investments may possibly be due to the fact that Japan is going through a low interest-rate environment. It is also important to note that even though the NIKKEI 225 Stock Market Index of Japan has performed well over the last few years, it’s still well below the peak it reached during the late 1980s when the Japanese economy was booming.<sup>18</sup>

However, there were also a proportion of respondents who mentioned that they will buy or look for a product that will convert some or all of household savings into guaranteed lifetime income, mostly among younger respondents, rather than pre-retirees and retirees.

Clearly, the industry has a challenge — and responsibility — to gain the trust and confidence of consumers to ensure that they invest in their retirement to secure the financial needs of a long life.

Reverse mortgages, generating rental income from properties, or corporate annuity with tax benefits did not find many takers across the region.

**Table 7 — Method to Generate Income From Savings in Retirement**

Responding to the question: “Which of the following best describes how your household plans to generate income from your retirement savings?”

	Young workers	Pre-retirees	Retirees	Japan
<b>Withdrawal Preferences</b>				
Withdraw some principal and some interest on a regular basis	18%	15%	12%	15%
Withdraw some principal and some interest on an occasional basis, or when needed	22%	18%	23%	21%
Withdraw only interest and dividend earnings, but not withdraw any principal	24%	12%	12%	17%
None. My household has no intention of using retirement savings for income	10%	17%	25%	17%
<b>Interest in buying properties or annuities for income or growth</b>				
Buy or look for a product that will convert some or all of household savings into guaranteed lifetime income	22%	17%	8%	17%
A corporate annuity with a tax benefit	17%	13%	7%	13%
Invest retirement savings in property and generate rental income	13%	9%	4%	9%
Opt for a reverse mortgage	6%	4%	2%	4%
Don't know	27%	31%	26%	28%

Note: The top-three results per market have been highlighted for easy reference. In case there is a similar preference in the third option, additional preferred choices are highlighted.

In addition to identifying investment preferences, it is also important to understand when consumers plan to retire and if their savings are sufficient to fund their needs in retirement. The retirement industry also needs to understand the consumer perspective on length of time needed to save for retirement, how many years consumers expect retirement to last, and if consumers correctly estimate their life expectancies at age 60.

<sup>18</sup> <https://tradingeconomics.com/japan/stock-market>. Date accessed 2018.



Across generations, the time spent on retirement planning differs from generation to generation. On average, respondents generally start saving for retirement around age 42 and spend approximately 20 years preparing for retirement. Young workers started/will start preparing for retirement much earlier than other respondents. They began preparing for retirement at the age of 37 years, whereas pre-retirees and retirees started preparing for retirement at the age of 45 years and 46 years, respectively.

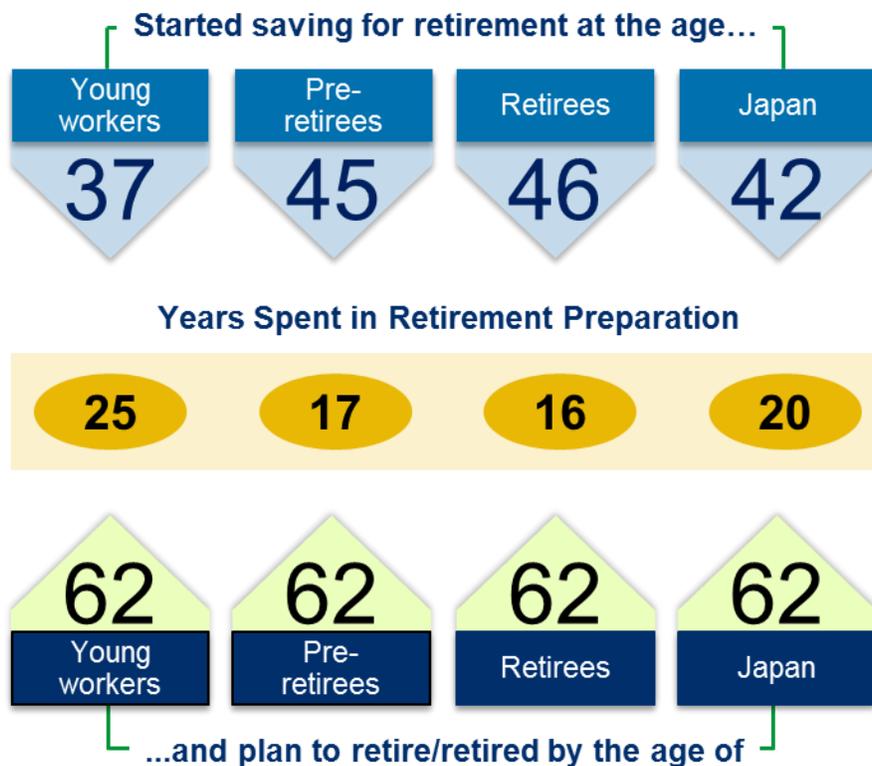
This also means that the young workers spent the most time preparing and saving for retirement. This is a positive sign, and the industry must seize this opportunity arising from a shift in the mindset of younger consumers.

Among the retiree segment, those who did not retire at 60 years continued working till age 67. It would not be surprising if the working age gets stretched even further in the future. However, irrespective of how long consumers plan to work, they need to understand the importance of planning and saving at an early age to build adequate savings or investments to sustain comfortable retirement lives.

**Respondents in the retiree segment age range (61 years – 75 years), who could not retire, had to extend their working lives and plan to retire at the age of 67 years.**

**Figure 23 — Retirement and Retirement Planning**

Responding to questions: “At what age do you expect to retire/How old were you when you retired? At around what age will/did you start saving/investing for retirement/At around what age did you start saving/investing for retirement?”





### Figure 24 — Regret Delaying Saving for Retirement

Agree with: “I regret I started saving and investing for retirement a bit late OR I have not started saving for retirement at all.”



**Almost 1 out of 2 respondents regret they started saving late for retirement or did not start saving at all.**

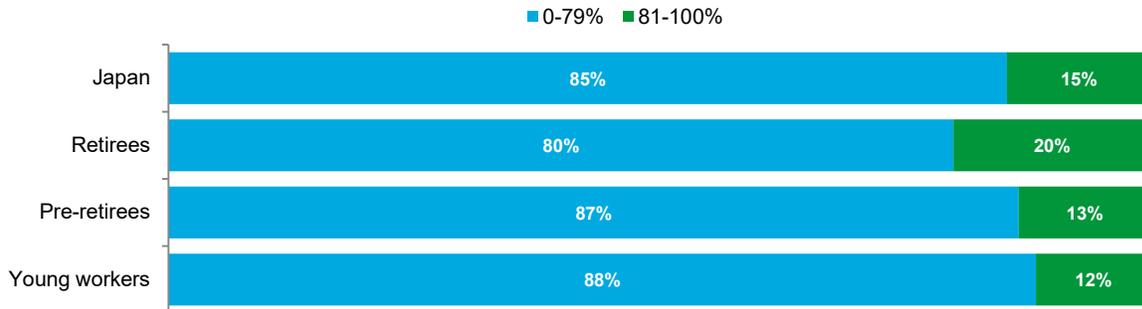
Not only do respondents regret delaying retirement planning, unfortunately they also expect a huge gap in retirement funds when they turn age 60. Almost 1 out of 2 respondents regret delaying saving for retirement or not having started saving for retirement at all. This proportion is even higher among pre-retirees, where almost 56 percent said they regret delaying retirement planning. This also indicates that individuals often miscalculate how much and how long they need to save and invest. Only at a later age do they realize that they haven't saved enough.

In addition, a massive 85 percent of respondents across Japan anticipate a gap in retirement funds when they turn age 60, and only around 15 percent of respondents expect to have more than 81 percent of the funds they need to lead a comfortable retired life. Young workers, who did not participate in the booming economy of Japan's past, expected a much wider gap in the retirement funds compared to other respondents, despite having saved for the longest duration. Having said that, even the pre-retirees and retirees are expecting to or have already faced a huge gap in retirement funding.

**Eighty-five percent of respondents anticipate a gap in retirement funds when they turn age 60.**

### Figure 25 — Anticipated Gap in Retirement Funds

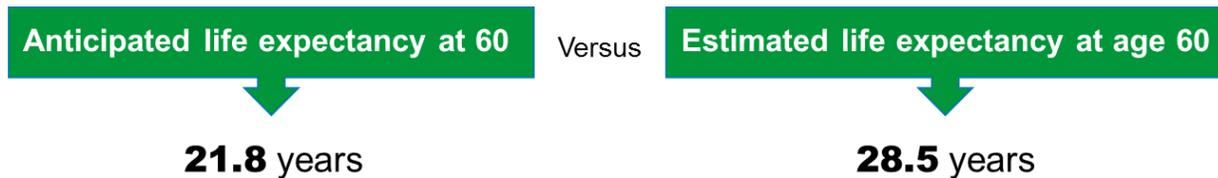
Responding to questions: “What percentage of total retirement funds (that you may need to sustain a comfortable retired life) do you anticipate to have when you turn age 60? What percentage of total retirement funds (that you may need to sustain a comfortable retired life) did you anticipate you would have when you turned age 60?”



To make things worse, respondents underestimate their life expectancies at age 60 by a massive 24 percent, which implies that the retirement funding gap is much wider even than they anticipate (Figure 26). Respondents expect to live around an additional 21.8 years upon turning age 60, versus the reality of 28.5 years.<sup>19</sup>

### Respondents also had a tendency to underestimate life expectancy.

Figure 26 — Anticipated Life Expectancy at Age 60 Versus Estimated Life Expectancy at Age 60



Note: For comparison, 2035 – 2040 data has been used from the UN Population Division for age bands and quotas.

Most respondents across Japan are expecting a looming gap in retirement funds upon turning age 60; they are facing unique challenges and have valid reasons to be concerned about retirement. In addition, they are worried about risks related to public policies, along with economic and market risks. Respondents were specifically worried that the government or companies will reduce the social pension and increase taxes, as the aging society will make it harder for the government to provide for the elderly. These concerns seem to contradict the fact that most said they will not depend on the government for their retirement income. Pre-retirees were relatively more worried that the government or companies will reduce health or medical insurance benefits, and young workers were worried that chronic illness may drain their lifelong savings.

<sup>19</sup> For comparison, 2035 – 2040 data has been used from UN Population Division, considering the age band and quota used in the study.

Paying healthcare expenses remains a major concern across most respondents from Japan, even though it did not figure among the top-three concerns. Respondents are quite worried about paying healthcare costs not covered by their social insurance medical supplements. Past research has demonstrated the validity of these concerns. In fact, 60 percent of an individual's lifetime healthcare expenses occur in old age, specifically after the age of 65.<sup>20</sup> However, an interesting point to note is that working retirees stated that they may consider prolonging their working lives up to the age of 67 years, and two thirds pointed out that they may struggle to find or maintain employment in retirement. That certainly is a cause for concern.

## Public policies, along with economic and market risks, remain top concerns in retirement.

**Table 8 — Key Retirement Concerns**

Responding to the questions: "How concerned are you about each of the following? How concerned are you about each of the following during retirement?"

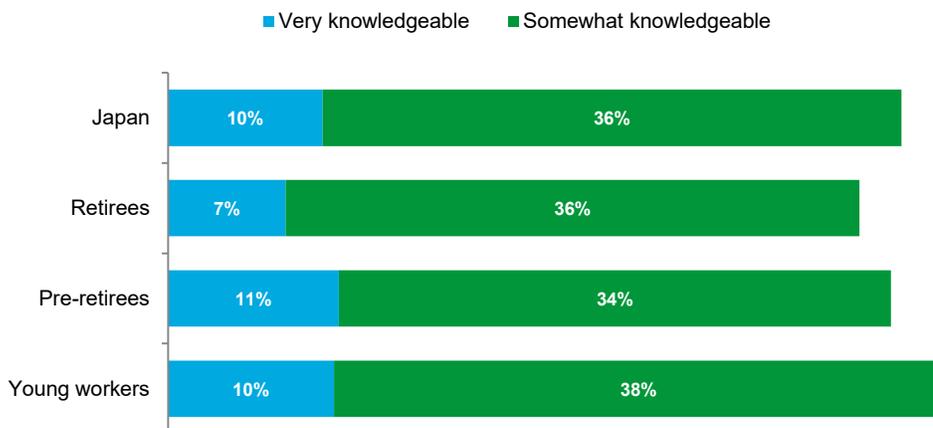
	Young workers	Pre-retirees	Retirees	Japan
<b>Longevity risks</b>				
Providing for your spouse/partner if you should die first	65%	67%	57%	63%
The possibility that you or your spouse/partner will outlive your assets	65%	65%	50%	61%
Providing for yourself if your spouse/partner should die first	70%	64%	57%	64%
<b>Healthcare/Long-term care risks</b>				
Providing for healthcare costs beyond social insurance medical supplement	85%	80%	77%	81%
A chronic illness may drain my lifelong savings	87%	81%	74%	81%
Finding available long-term care/nursing home care	76%	69%	73%	73%
<b>Public policy risks</b>				
Aging society will make it harder for the government to provide for the elderly	87%	87%	87%	87%
The government or company will reduce health or medical insurance benefits	86%	88%	84%	86%
The government or company will reduce social pension	86%	88%	88%	87%
<b>Economic and market risks</b>				
Tax increases	88%	89%	84%	87%
A decline in interest rates	77%	71%	70%	73%
A prolonged stock market downturn	79%	66%	60%	69%
The value of savings and assets might not keep up with inflation	79%	78%	74%	77%
<b>Legacy/family related, and other concerns</b>				
Inability to find or maintain employment in retirement	81%	73%	40%	67%
Not yet started planning for retirement	77%	69%	-	73%
You might not be able to leave money to your children or other heirs	60%	56%	48%	55%
My child/children may not take care of me and my spouse during retirement	62%	54%	48%	55%
My child/children are NEETs group (neither go to college nor go to work and remain financially dependent on parents as adults)	54%	42%	29%	43%

Note: The top-three results per market are highlighted for easy reference. In cases where the third-ranked concern had similar results with the subsequent concerns, those have been highlighted too.

<sup>20</sup> <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC1361028/table/tbl4/>.

## Figure 27 — Self-Assessment on Knowledge of Investments or Financial Products

Responding to the question: “In general, how knowledgeable do you think you are about investments or financial products?”



Note: Respondents were offered four options: “Very knowledgeable,” “Somewhat knowledgeable,” “Not very knowledgeable,” “Not at all knowledgeable.” The above results represent “Very knowledgeable” and “Somewhat knowledgeable.”

Most respondents across Japan generally acknowledged their responsibility for generating their own retirement income and generally do not seek outside retirement-planning advice from professionals; the need for a sound understanding of investments or financial products seems strongly indicated. However, based on their self-assessments, 46 percent of respondents across Japan claimed to be fairly knowledgeable (very knowledgeable and somewhat knowledgeable) about investments or financial products (Figure 27).

It must be further noted that the self-assessed level of knowledge on financial products across Japan is one of the lowest across the markets surveyed; the average across Asia is 70 percent. This could possibly be the reason why 37 percent stated that they did not take any initiatives on retirement planning. In fact many of them also said they do not know how to generate income from retirement savings.

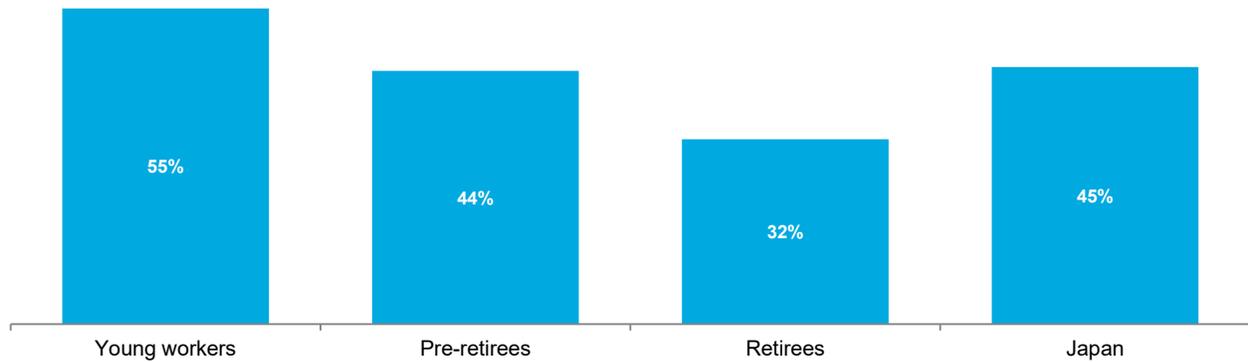
This is specifically an area where the industry and the government need to step in and educate the consumers on how to prepare for retirement and the options available to them to generate income in retirement.

The level of interest to convert a portion assets or an additional portion of assets into a lifetime-guaranteed annuity in retirement remains at the healthy level of 45 percent. The interest levels were particularly high among the young workers. This is a great opportunity for the industry to educate consumers, especially the relatively young ones, and offer them annuity products. The young workers also stated that they intend to spend the longest time saving for retirement.



### Figure 28 — Willingness to Convert a Portion of Assets Into an Annuity to Provide a Lifelong Income Stream

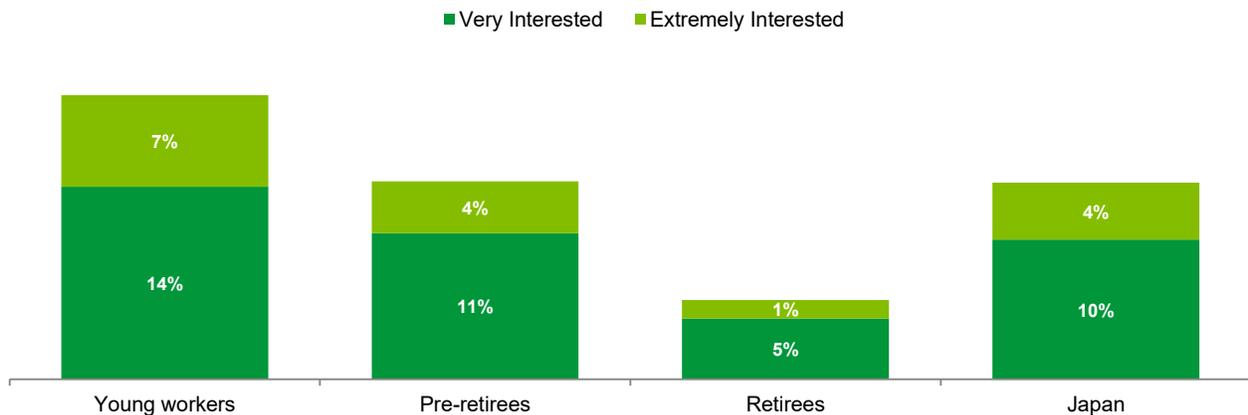
Responding to the question: “Annuities can provide a lifelong income stream in exchange for a premium payment. Individuals usually no longer have access to the assets used to pay for the annuity once it is purchased. Would you consider converting a portion your assets or an additional portion of your assets into a lifetime-guaranteed annuity in retirement?”



Note: Above results show people who responded “Yes.”

### Figure 29 — Interest in Buying a Tax-deferred Annuity

Responding to the question: “A tax-deferred annuity is a product issued by a life insurance company that allows you to save money for retirement. Taxes on earnings are not paid until you retire and begin withdrawing money from the annuity. Annuities also offer the ability to convert the balance into monthly income payments for life. If such products were available in your market, how interested would you be in purchasing one?”



Note: Above results represent responses of “Very interested” and “Extremely interested.” Respondents were offered the following options: “Not at all interested,” “Somewhat interested,” “Very interested,” and “Extremely interested.”

The interest level in tax-deferred annuities was relatively low across most of the Asian region. The level of interest in Japan particularly was very low, with only 14 percent stating that they are either very interested or extremely interested in buying a tax-deferred annuity. The interest level was extremely low among the retirees; however the young workers and pre-retirees exhibited a slightly higher level of interest.

**Table 9 — Preferred Method to Obtain Information on Investments, Financial Products, or Retirement Planning**

Methods/ Channels	Young workers	Pre-retirees	Retirees	Japan
Internet/financial websites	55%	53%	36%	49%
Books, magazines, and newspapers	27%	29%	39%	31%
Family, friends, or co-workers	27%	22%	24%	24%
Television or radio programs	19%	19%	19%	19%
My own financial advisor/planner/insurance agent	18%	12%	22%	17%
Employer (Human Resources)	16%	15%	12%	14%
Booklets, pamphlets, or other written materials provided by employer	11%	12%	14%	12%
Social media/networking websites	17%	11%	7%	12%
Website with information on my specific retirement account	12%	11%	7%	10%
Workshops and/or seminars	12%	5%	11%	9%
Representatives from the company managing my employer's defined contribution retirement savings plan	12%	8%	6%	9%
Mobile apps	10%	3%	2%	5%

*Note: This is a multiple choice question. Top three are highlighted.*

**Internet/financial websites, books, magazines, and newspapers and family, friends, or co-workers are the primary sources of information on investments, financial products, or retirement planning.**

The combination of the retirement and financial-literacy gaps makes it of paramount importance for the financial industry to refine its focus and work with government and other partners to create and deliver affordable products to help address the potential crisis.

To this end, this study identifies retirement-planning behaviors and product preferences. Well before consumers make the decision to buy annuities/other financial products for retirement income, they reach out to different sources for information about investment options and related product features (Table 9). It is very important for the industry to deliver easy to understand, easily accessible information where a majority are planning retirement on their own. It is critical that the information be accurate and helps lead consumers to take action for a positive retirement outcome.

Internet/financial websites have emerged as one of the strong sources of information, with almost half of respondents reaching out to them for their information needs. Not surprisingly, Internet/financial websites were not the most preferred channel to seek information, but were still among the top-three preferred ways to obtain information.

Many respondents have stated they do not reach out to financial advisors/planners/insurance agents for information; possibly they should do so more often. The industry should also make an effort to reach out to consumers. In addition, companies should make their websites robust with adequate information and explore converting online leads into sales.

A significant proportion of respondents prefer reaching out to family, friends, or co-workers directly, rather than through social media/networking sites. Books, magazines, and newspapers were also often preferred, especially among the retiree segment. It's important to keep in mind that this survey was conducted online, so each respondent has Internet access. The study also represents a segment of the population that is more likely to buy retirement products.

**Table 10 — Usefulness of the Information Gathered From Different Channel or Methods**

Responding to the question: "Which information source did you find the most useful?"

Methods/ Channels	Young workers	Pre-retirees	Retirees	Japan
Internet/financial websites	34%	34%	21%	30%
Books, magazines, and newspapers	8%	12%	22%	13%
My own financial advisor/planner/insurance agent	12%	10%	15%	12%
Family, friends, or co-workers	11%	11%	12%	11%
Employer (e.g., Human Resources or Benefits Department)	5%	7%	4%	5%
Television or radio programs	6%	5%	4%	5%
Booklets, pamphlets, or other written materials provided by my employer	3%	4%	7%	5%
Workshops and/or seminars	4%	3%	5%	4%
Website with information on my specific retirement account	5%	5%	1%	4%
Social media/networking websites	6%	3%	2%	3%
Representatives from the company managing my employer's defined contribution plan	4%	3%	1%	3%
Mobile apps	3%	1%	1%	2%

Note: Respondents were allowed to choose only one option. Results under 5 percent may represent an option chosen by a sample of 10 or fewer respondents.

Consumers also described information from Internet/financial websites as very useful and the first choice for product information. Significantly, even though financial advisor/planner/insurance agent were not the most preferred source of information, respondents found the information they provided very useful. These advisors/planners/insurance agents are trained to have strong product knowledge and deliver it in a way that is clear and easy to understand. They also offer the value of a human touch and a face-to-face conversation, and their contribution cannot be overlooked.



Even though the contribution of financial advisors/planners/insurance agents to deliver information is valued, the industry needs to do more. By rethinking how to help consumers find the right product and by delivering information in a way that generates confidence among consumers, the industry can emerge as the most preferred source of information.

***Internet/financial websites are both the most preferred and useful mode for obtaining information. Information from financial advisors, planners, and insurance agents is considered relatively useful, even though they are not the most preferred mode of obtaining information.***

The survey asked respondents to share their preferences, aside from issues of cost, for product features of financial products or investments that could be used to create income in retirement. Perhaps unsurprisingly, consumers showed strong preferences for guaranteed income for life, protection of principal investment, and fixed returns. Respondents were not keen on having greater control over their investments and having the ability to adjust their portfolios, except among young workers who would prefer to have control over how investments are managed.

Specifically, the respondents had an affinity with features that guaranteed lifetime income, income that remains same or fixed throughout retirement, and features that offer guaranteed returns on investments.

There were also certain strong preferences among pre-retirees and retirees who would like to have products that would allow income to continue after the policyholder's death or the death of the spouse. That is understandable considering the longevity Japan experiences.

However, consumers do not show a very strong preference towards premium structure; generally young workers were more interested in the premium structure of the products, and they would in particular like to have products that offer a single premium option.

***Across markets, consumers indicated a preference for more conservative product features of guaranteed income and capital / principal preservation.***

**Table 11 — Most Preferred Product Features**

Responding to the question: “Aside from issues of cost, when selecting among financial products or investments that could be used to create income in retirement, which of the following features are most important to you?”

	Young workers	Pre-retirees	Retirees	Japan
<b>Guaranteed Lifetime Income</b>				
Income that is guaranteed for life	37%	34%	41%	37%
Income will remain the same or fixed throughout retirement	31%	28%	34%	31%
Income will continue after I die or my spouse dies	28%	28%	30%	28%
Guaranteed returns on investments	29%	24%	27%	27%
<b>Income Flexibility</b>				
Income has the potential for growth with market	26%	18%	18%	21%
Income amount can be changed as needs change	26%	17%	17%	20%
Income that is adjusted for inflation	26%	19%	20%	22%
Income can be converted into a lump sum	22%	13%	10%	15%
Capital/Principal preservation				
Initial investment amount is preserved or protected	41%	35%	42%	39%
<b>Control Over Investments and Flexibility</b>				
Control over how investments are managed	30%	21%	23%	25%
Tax benefit	33%	33%	30%	32%
The ability to make withdrawals in excess of regular payment	20%	17%	16%	18%
Option to withdraw entire money as lump sum and manage on your own	20%	12%	11%	15%
<b>Premium Structure and Other Features</b>				
Money for heirs or charities when I die	22%	20%	21%	21%
Single premium	22%	15%	12%	17%
Level premium	19%	12%	13%	15%
Stepped-up premium	17%	7%	10%	11%
Option to receive predefined lump sum or annuity payment in foreign currency (e.g., USD, AUD)	21%	11%	11%	15%

Note: The following options were given to the respondents: “Not at all important,” “Somewhat important,” “Very important,” “Don’t understand feature.” The above results are the percentage of respondents who selected “Very Important.” Also note that the top six are highlighted in blue.

Definitions — Single premium is an insurance plan in which a lump sum of cash is paid up front to guarantee payment to beneficiaries. Level-premium insurance is a type of term life insurance for which the premiums remain the same throughout the duration of the contract. Stepped-up premium is calculated on a policyholder’s age, meaning the younger the policyholder, the lower the cost and premiums; and premiums will increase over time.

**Banks emerged as the most preferred channel to buy retirement products.**

**Table 12 — Top-Four Channels for Retirement Income Products**

Responding to the question: “If you were to buy a product with the features you selected, from where would you like to buy it?”

	Young workers	Pre-retirees	Retirees	Japan
1	Bank	Bank	Bank	Bank
2	Post Office	Post Office	Post Office	Post Office
3	Insurer’s website	Broker/financial advisor (sells multiple products)/ General	Broker/financial advisor (sells multiple products)/ General	Broker/financial advisor (sells multiple products)/ General
4	Insurance Store	Insurance Store	Insurance Store	Insurance Store

The top product features selected by respondents were quite similar across generations with one or two exceptions. Most of the preferred product features were designed to fulfill basic needs, and some were reflective of the unique needs across life stages or unique individual needs (Table 11). The online channel of the insurer website or other financial websites were dominant across most generations, but it perhaps surprising to observe banks emerge as the most preferred channel to buy retirement products, well ahead of the usually popular agent channel. Considering the unique insurance distribution landscape, the Post Office and insurance store were also popular. In addition, young workers would also like to buy insurance from an insurer’s website.

***Maintaining physical health and well-being remains a top priority for most.***

However, along with these products, investments, and concerns, respondents have their own unique retirement objectives. The top priority among the respondents was to maintain good health and well-being, especially among the young workers. They also expressed a strong desire to spend more time with friends and family and would like to continue to live in their current residences. Some of them would also like to financially support their families and some would like to travel more. Not many expressed the desire to move away from their homes into retirement communities or nursing homes.



**Table 13 — Important Aspects of Retirement Life**

Responding to the question: *Many people have specific hopes and aspirations for their retirement. How important is it for you to achieve each of the following in retirement?*

	<b>Young workers</b>	<b>Pre-retirees</b>	<b>Retirees</b>	<b>Japan</b>
Maintain my physical health and well-being	69%	55%	64%	62%
Spend more time with friends and family	50%	54%	60%	54%
Remain living in my current residence	25%	23%	27%	25%
Financially support my family	21%	23%	18%	21%
Travel more	22%	21%	18%	21%
Learn a new skill/hobby	25%	14%	10%	17%
Save up for leaving a legacy	12%	9%	6%	9%
Get involved with some type of group/activity/community for retired persons	13%	6%	4%	8%
Move into a nursing home	10%	5%	3%	6%
Move into a community for retired persons	12%	3%	2%	6%

*Note: The results represent "Very important" responses out of the overall options: "Not at all important," "Important," and "Very important."*



# Industry Opportunities

The industry has a significant opportunity — and responsibility — to help address the looming retirement-funding gap with the products and features identified in this study. The industry needs to create a roadmap to address the looming retirement funding gap that concerns consumers. Insights from this consumer research highlight significant opportunities that the financial services industry can explore and optimize, including:

- **Responsibility:** Almost 70 percent of the respondents across Japan accept the responsibility of funding their retirement. However, there is a slight difference across generations. The proportion of respondents who consider it their own responsibility is much higher among pre-retirees (74 percent) and young workers (71 percent) than among retirees (59 percent). This highlights a change in mindset in the younger generation whose members are willing to be proactive and take care of their future needs, without depending on past employers. The proportion of the respondents who would like to depend on the government or family for their post-retirement income is generally quite low.
- **Retirement Planning:** Eighty-two percent of the respondents indicated that they do not work with any financial professionals for household financial decisions, a proportion far above the Asia average of 60 percent and a cause of significant concern. Young workers have a slightly higher tendency to work with financial professionals, but at an average well below Asia's. In addition, more than four fifths of respondents, especially in the retiree segment, did not seek help from a financial professional for their retirement planning.
- **Key Aspirations:** The top priority among the respondents was to maintain good health and well-being. They also expressed a strong desire to spend more time with friends and family and would like to continue to live in their current residences. These aspirations are not too difficult to achieve, provided they start saving for their retirement early and prudently.
- **Procrastination:** Even though most consider it their own responsibility to plan for retirement, almost 1 of 2 respondents regret delaying saving for retirement or not having started saving for retirement at all. This proportion is even higher among pre-retirees, where almost 56 percent said they regret delaying retirement planning. This also indicates that individuals often miscalculate how much and how long they need to save and invest, only to realize at a later age that they haven't saved enough. They clearly could benefit from professional guidance and advice.
- **Retirement Funding Gap:** A significant 85 percent of respondents across Japan anticipate a gap in retirement funds when they turn age 60, and a mere 15 percent expect to have more than 81 percent of the funds they need to lead a comfortable retired life. Young workers, who did not participate in the booming economy of Japan's past, expected a much wider gap in the retirement funds compared to other respondents, despite having saved for the longest duration. This substantial gap is a result of inaction and missteps in retirement planning and investing.
- **Underestimating Life Expectancy:** To exacerbate the situation, respondents underestimate their life expectancies at age 60 by a massive 24 percent, which suggests that the retirement funding gap is even wider than they anticipate. Respondents expect to live an additional 21.8 years upon turning age 60 versus the reality of 28.5 years. This miscalculation impacts not only retirement-income calculations but also retirement expenses, including potentially significant healthcare costs.



- **Willingness to Buy Annuities:** The level of interest to convert a portion of assets or an additional portion of assets into a lifetime-guaranteed annuity in retirement remains at healthy levels of 45 percent. The interest levels were particularly high among young workers. This is a great opportunity for the industry to educate consumers, especially the relatively young ones, and offer them annuity products. Young workers also indicated that they intend to spend the longest time saving for retirement. The industry has an important opportunity to help consumers achieve financial security in retirement and assuage their retirement concerns.
- **Preferred Products Features:** Among the number of options that respondents were offered, they strongly preferred products that offer guaranteed income for life, protection of principal investment, and fixed returns. Respondents were not keen on having greater control over their investments and having the ability to adjust their portfolios, except young workers who would prefer to have control over how investments are managed. Considering the fact that Japan has one of the most aged economies in the world, consumers and the industry needs to act **effectively** and act **now**.
- **Preferred Channels to Buy:** Of preferred channels to buy, the insurer's website or financial websites dominated across most age groups, but it is noteworthy that banks emerged as the most preferred channel to buy retirement products, well ahead of the usually popular agency channels. Considering the unique insurance distribution landscape, the Post Office and insurance store were also popular. Young workers would also like to buy insurance from an insurer's website. Accordingly, insurers and other financial institutions may do well to strengthen existing partnerships with banks or look for newer partnerships with banks.

# Appendix

This study is an extension of the China retirement study of 2015 – 16 that was a collaboration between the Society of Actuaries (SOA) and LIMRA targeted to identify the challenges faced by other selected markets across Asia. It further provides insights into consumer perceptions of retirement across nine major regional Asian markets, including Hong Kong, India, Indonesia, Japan, Singapore, South Korea, Taiwan, Thailand, and China. This report is primarily focused on Japan.

**Table A-1 — Respondents by Working Status**

Responding to the question: “Are you currently ...?”

	Young Workers	Pre-retirees	Retirees	Japan
Working full time for pay	93%	94%	32%	77%
Self-employed / Family business	1%	0	0	1%
Retired and working part time for pay	4%	4%	25%	9%
Retired and not working for pay	1%	2%	42%	13%

**Table A-2 — Respondents by Employer Type**

Responding to the question: “Which of the following best describes your employer/From what type of employer did you retire?”

	Young Workers	Pre-retirees	Retirees	Japan
The government	9%	12%	46%	20%
An institution controlled by the government (public sector)	3%	7%	38%	14%
A private company (enterprise)	87%	78%	15%	64%
Other, please specify	1%	4%	0	2%

**Table A-3 — Respondents by Household Size**

Responding to the question: “What is your household size?”

	Young Workers	Pre-retirees	Retirees	Japan
1 to 2 persons	42%	34%	56%	43%
3 to 4 persons	45%	53%	37%	46%
5 to 6 persons	11%	12%	5%	10%
7+ persons	2%	1%	2%	1%

**Table A-4 — Respondents by Gender**

Responding to the question: “Are you?”

	Young Workers	Pre-retirees	Retirees	Japan
Male	57%	83%	66%	69%
Female	43%	17%	34%	31%

**Table A-5 — Respondents by Urban/Rural**

Responding to the question: “How would you describe the place you live?”

	Young Workers	Pre-retirees	Retirees	Japan
Rural	34%	42%	47%	34%
Urban	66%	58%	53%	66%

**Table A-6 — Respondents by Pre-tax Total Annual Income**

Responding to the question: “Which of the following ranges describe your household’s pre-tax total annual income. Please include any income from employment earnings, investments, interest, dividends, social security, pensions, etc.?”

	Young Workers	Pre-retirees	Retirees	Japan
JPY 2,000,001– JPY 4,000,000	22%	14%	37%	23%
JPY 4,000,001 – JPY 8,000,000	43%	42%	46%	43%
JPY 8,000,001 – JPY 20,000,000	29%	39%	16%	29%
JPY 20,000,001 – JPY 60,000,000	4%	2%	1%	3%
JPY 60,000,001 +	3%	3%	0	2%

**Table A-7 — Respondents by Current Housing Situation**

Responding to the question: “What is your current housing situation?”

	Young Workers	Pre-retirees	Retirees	Japan
I own my apartment or house	54%	77%	91%	73%
I rent from a landlord	32%	15%	6%	19%
Live with parents, other family members, friends or other	12%	6%	2%	7%
Others	1%	2%	1%	2%



**Table A-8 — Respondents by Level of Education**

Responding to the question: *“Which of the following best describes your highest level of education?”*

	<b>Young Workers</b>	<b>Pre-retirees</b>	<b>Retirees</b>	<b>Japan</b>
High school or less	12%	21%	23%	18%
Technical/vocational school	13%	12%	6%	11%
Two or three years of college/Associate's degree	9%	4%	6%	7%
College graduate/Bachelor's degree	54%	53%	54%	54%
Graduate school/Master's degree	10%	7%	6%	8%
Doctoral degree/Ph.D.	1%	3%	5%	3%



**Table A-9 — Sub-region Detail: Japan**

Responding to the question: "Which of the following region are you from?"

Hokkaido	Tohoku	Kanto	Chubu	Kinki	Chugoku	Shikoku	Kyushu-Okinawa
Sapporo City	Sendai	Maebashi	Nagoya City	Osaka	Hiroshima	Awa	Fukuoka
Asahikawa	Iwaki	Fujioka	Niigata City	Kobe	Okayama	Tosa	Kitakyushu
Hakodate	Koriyama	Annaka	Hamamatsu City	Kyoto	Kurashiki	Sanuki	Kumamoto
Obihiro	Akita	Mito	Shizuoka City	Tsu	Fukuyama	Iyo	Kagoshima
Kushiro	Morioka	Saitama	Kanazawa City	Wakayama	Shimonoseki		Ōita
Kitami	Aomori	Tokyo	Toyama City	Nara			Nagasaki
Iwamizawa		Chiba	Gifu City	Otsu			Miyazaki
Wakkanai		Isumi	Nagano City	Sakai			Naha
Abashiri		Nagareyama	Fukui City	Himeji, Hyōgo			Kurume
Nemuro			Kofu City	Higashiōsaka, Osaka			
Rumoi			Nagoya City	Nishinomiya, Hyōgo			
			Niigata City	Amagasaki, Hyōgo			
				Toyonaka, Osaka			
				Takatsuki, Osaka			
				Hirakata, Osaka			
				Suita, Osaka			
				Yokkaichi, Mie			
				Akashi, Hyōgo			
				Ibaraki, Osaka			
				Yao, Osaka			
				Kakogawa, Hyōgo			
				Takarazuka, Hyōgo			
				Neyagawa, Osaka			
				Kishiwada, Osaka			

Note: Respondents chose the regions themselves.



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