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An Outline of The Defined-contribution Pension Plan
- Japan's Version of the 401(k) Plan -

by
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Q. *Who is eligible to subscribe to the 401(k) plan?*

A. There are two types of defined-contribution pension plans: the corporate type and the personal type. Under the former, the company pays contributions of the pension plan for its employees, but the employees are not permitted to pay matching contributions. Non-salaried workers can subscribe to a defined-contribution personal pension plan. In the case of a company that does not have an employee pension fund (contracted-out plan), a tax-qualified pension plan or defined-contribution corporate pension plan, an individual worker can subscribe to a defined-contribution personal pension plan, provided he/she is 60 years of age or younger. And he/she will be fully qualified to receive benefits of the pension plan three years after subscription. Public servants and full-time housewives are not eligible to subscribe to either of the pension plans.

Q. *Can foreign/foreign-affiliated companies and their employees subscribe to the 401(k) plan?*

A. Companies with offices in Japan are eligible to subscribe to the new system regardless of nationality.

Q. *When will the new system commence?*

A. The defined-contribution corporate pension plan will become available on October 1, 2001. The personal type will start from April 1, 2002.

Q. *What procedures are involved to subscribe to a plan?*

A. In the case of a defined-contribution corporate pension plan, the employer and the employees have to work out a set of rules agreeable to both parties, and get the approval of the minister concerned. On the other hand, subscription to a defined-contribution personal pension plan must be filed through the National Pension Fund Association.

Q. *Is there any limit on how much an individual can contribute to the plan?*

A. Yes. The annual amount a person can contribute is limited to the amounts set forth below. Any amount in excess of these amounts will not be accepted.

Corporate type:

If the employer has no employee pension fund nor a tax-qualified pension plan 432,000 yen

If the employer has an employee pension fund or a tax-qualified pension plan 216,000 yen

Personal type:

Self-employed person (together with the contribution to the

national pension fund)	816,000 yen
An employee in a private company	180,000 yen

Q. *Is the plan portable?*

A. The balance of assets of each planholder is recorded and managed separately. When a planholder resigns from one company and joins another, his/her pension assets are transferred to the new company. His/her equity in the existing DB employee pension fund and/or the tax-qualified pension plan can be transferred to those of the new company, provided his/her former company and its labor union have an enabling agreement. In the instance that the new company does not have a corporate type pension plan, the employee may transfer his/her pension assets to a personal type pension plan.

Q. *What happens to preferential tax treatment?*

A. Contributions are tax-exempt, but income earned and distributed from investment of, and benefits paid out of, the pension assets, as a rule, are subject to income tax. However, the special corporate tax leviable on income from pension assets will be suspended until March 31, 2003. The deductibility of income from publicly-managed pension benefits and a lump-sum retirement benefit will be applied to benefits paid. Even if the planholder resigns from a company and his/her pension assets are transferred to another company, the preferential tax treatment will remain in effect.

Q. *Can I receive the benefits in a lump sum?*

A. There are three types of benefits payable in a lump sum; old-age benefits, disability benefits and death benefits. In principle, people 60 years of age or older will be eligible to receive old-age benefits providing the covered period has been 10 years or longer. The minimum covered period is six years. When pension annuities are preferred, the receiving period must exceed five years.

Q. *How are the pension assets managed?*

A. Employees or planholders give instructions as to how to invest their pension assets. There are more than three options, ranging from the principal guaranteed investment products to bank deposits, debt securities, investment trusts and insurance. Pension assets can also be invested in individual stocks and shares of the company the planholder is employed by. Planholders can reshuffle the portfolio at least every three months.

Q. *Is borrowing from funded assets permitted?*

A. No. No decumulation before age 60 is permitted, either.