“Too Many Promises”

from the article written by Mr. Reiji Yoshida on

“Promised Future Security Shaky: State-paid Pensions Short on Funds, Faith,”

The Japan Times, 29 April 2003

Faith in the state-run public pension program, one of the nation's most fundamental social security safety nets, has been rapidly drying up.

An increasing number of people are opting not to pay contributions for what should be a "compulsory" pension system to support the rapidly aging society. Experts say the trend could eventually bring financial collapse to the program unless radical reforms are carried out.

If the current situation drags on, young contribution-payers will not be able to receive benefits worth what they pay in, according to a simulation by the private think tank Japan Research Institute.

A hypothetical household consisting of a nonworking wife and a salaried husband both born in 1940 will pay 25.33 million yen in contributions before retirement and receive 67.97 million yen in benefits, or 2.68 times the contributions, according to a calculation based on 1999 money figures.

But a similar couple born in 1980 will pay 63.45 million yen to receive only 46.54 million yen, or 0.73 times the amount paid.

People born in 2000 will receive benefits of only 0.61 times what they will pay in.

This big generational disparity has apparently led to an exodus of self-employed workers from the Basic Pension System.

Salaried workers generally have no choice but to pay, as their contributions are automatically deducted from their paychecks.

Hitotsubashi University professor Noriyuki Takayama notes that the aging society is not the only reason for the huge generational gap in benefits.

"(The government and politicians) have promised too many benefits with too few contributions for the older generations, without securing the source of funds," Takayama said. "That's the problem."

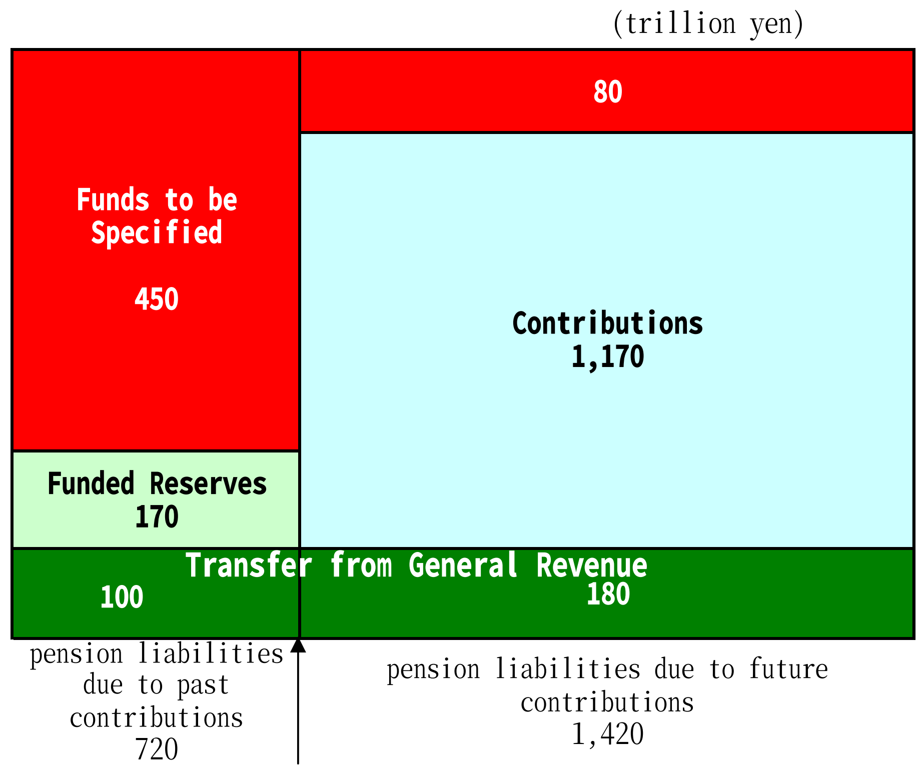
According to the Ministry of Health, Labor and Welfare, the "kosei-nenkin-hoken" social security pension system (KNH) for salaried workers had benefit liabilities totaling 720 trillion yen at the end of the 1999 fiscal year, entitled by past contributions.

Of the 720 trillion yen in total liabilities, revenue sources have been secured for only 270 trillion yen so far. The remainder of 450 trillion yen must be recovered by new money (see the Figure below).

Takayama pointed out, however, that if separated from liabilities caused by past promised benefits, future generations will be able to break even on their own, with only small cutback of benefits.

All generations should share the existing burden, he argued, noting that elderly pensioners should accept a cut in the benefits they've been promised and some pension financing should be covered by the consumption-based tax, which is paid by everyone including current pensioners.

Balance Sheet of the KNH
(as at 31 March 2000)



(Notes)

1. Nominal rates of annual increase are assumed to be 2.5% for wages and 1.5% for CPI.
2. The discount rate is set to equal 4.0% annually in nominal terms.
3. The transfer from general revenue equals one-thirds of the flat-rate basic benefits.

(Source) Ministry of Health, Labor & Welfare, Japan, *The FY1999 Actuarial Report on the KNH,* Tokyo: Hohken