

## ***The Trend and Issues of the Defined Contribution Plan in Japan***

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**Abstract** ; Japanese public pension scheme is reformed in 2004. Most crucial point is that the tax rate (the contribution rate) is fixed for the future, the benefits will be financed by the limited budget. Such reform is inevitable to improve the balance sheet of the public pension. The reform could reduce the burden of subsequent generations and mitigate the difference of the internal rate of return (IRR) between generations. But the relationship between the benefit and the contribution is still ambiguous. As the replacement ratio will decline gradually, we must undertake some means of pervading private pensions to make up the benefits of the public pension. One option is to give them some tax privilege, another option is to cut down their administrative costs, such as preparing group investment schemes or group insurances.

In this paper, we want to show the results of the questionnaire about the defined contribution plan introduced into Japan in 2001. The questionnaire aimed to reveal how plan participants and sponsoring companies make decisions about the amounts of contribution and the choice of financial instruments, etc. We point out some issues of the new plan, especially focus on how to give instructions about the investment of funds to the participants who burden the investment risks. At the same time, we find the existence of economies of scale in the administration. We conclude it's important to prevailing the plan to small companies by improving it's real IRR.