

*Interview*

## **DC Scheme Better Tailored to Suit Modern Corporate Japan**

*The Nikkei Weekly* September 3, 2001

With the Tokyo stock market so sluggish, some people are worried about the timing of the launch of the defined contribution (DC) pension plan. But Noriyuki Takayama, professor of public economics at the Institute of Economic Research at Hitotsubashi University in Tokyo, is optimistic. He believes Japanese people are more aware of investment risks because they have been experiencing a continuous decline of the market for more than 10 years.

**Q:** *With the bearish sentiment of the stock market, do you think the DC plan will take off smoothly?*

**A:** If it had been launched in the late 1980s, when the stock market was skyrocketing amid the bubble economy, its investment performance would have been disastrously poor by the early '90s after the economic collapse. Now people know share prices could drop sharply and have become prudent. In the long run, there will be fewer people who get severely burned with a plunge of share prices than before the bubble era.

**Q:** *How will the introduction of DC affect the benefit systems of Japanese companies?*

**A:** Many Japanese companies are abandoning the seniority system in favor of merit-based pay, and the introduction of DC is consistent with the move. Employees customarily receive a lump sum upon retirement. With the introduction of DC, they will get it before they retired and manage it as they see

fit. Many employees see this as a beneficial alternative as they will receive cash installments over a period of time making their personal finances easier to manage. The Japanese corporate benefit system needs overall reform to accommodate the end of life-time employment, and I suppose the launch of the DC plan could be the beginning. Even companies that want to keep the defined-benefit scheme could pay a retirement lump sum before employees retire as a kind of variation on the benefit package.

The benefit package needs to be more flexible and attractive. For example, many packages are tailored to suit the needs of families rather than single employees. Small things, such as discount haircuts at the company barber, are all part of the package but they only benefit certain employees. Young, fashion-conscious employees and women workers are not likely to use the company hairdresser. There should be a wider variety of options in the plan such as sick pay and child-rearing leave. What is most important is that the employees can freely choose benefits that suit their lifestyle and improve their standard of living.

**Q:** *How do you evaluate the start of the DC plan?*

**A:** I think it's good. The DC plan will provide an option for both employers and employees. For employers, they will be released from the obligation to make up for funding shortages often incurred by a low investment return. Companies' pension liabilities have grown so big that they could have an adverse impact on corporate ratings.

Even when employers want to spend funds on capital investment for new products or technologies, they can't have a free hand to do so if they are saddled with huge pension liabilities. For employees, DC will meet the demands of job-hoppers and younger and female workers.

(Interview conducted by Yumiko Suzuki)