

## The Outline of the 1999 Pension Reform Bill in Japan

In December 1998, the Japanese government decided to freeze increases in social security contribution rates for pensions from fiscal year 1999, with a partial funding shift to general revenue from one-third to one-half in financing basic benefits from fiscal year 2004 at the latest. The funding shift will enable the contribution rate for social security pensions to decrease by one percentage point for the principal programme for private-sector employees, and by 3,000 yen per month for each non-employee person. If increased general revenue is to be financed by the earmarked consumption-based tax, a 0.8 percentage point increase in the consumption tax rate (currently 5 per cent) will be necessary, though the type of tax increase has not yet been specified. It is still quite uncertain, as well, whether or not the funding shift is on the way to assuring a universal, tax-financed basic pension for all members of the community.

Also, in December 1998, the government decided to increase existing pension benefits in fiscal year 1999 to reflect only changes in the CPI over the previous calendar year, though fiscal year 1999 was previously anticipated as seeing net-wage indexation of existing pension benefits after a five-year interval.

In July 1999, the government submitted the 1999 pension reform bill to the parliament and the bill was passed through it in March 2000 . Its main points are as follows:

a) Earnings-related benefits are to be reduced by 5 per cent; specifically, the current annual accrual rate of 0.75 per cent is to be decreased to 0.7125 per cent from fiscal year 2000.

b) Both the flat-rate basic benefits and the earnings-related pension benefits once paid are to be CPI-indexed after age 65 from fiscal year 2000.

c) The normal pensionable age for earnings-related old-age benefits is to be increased step by step from age 60 to 65 for men from fiscal year 2013 to 2025. The phasing out of earnings-related old-age benefits for female employees in their early 60s will be delayed by five years starting only in 2018. In exchange, those between 60 and 64 will become eligible for newly provided advance payment, at a reduced rate, out of the earnings-related benefits. The rate of reduction will be newly fixed within the next year.

d) An earnings test for those aged 65 to 69 is to be introduced from fiscal year 2002 (currently Japan has no such test for them). Increases in earnings-related old-age benefits for delayed retirement between ages 65 and 69 are to be abolished accordingly.

e) Employers are to be exempted from paying their share of social security pension contributions for their employees on child-care leave from fiscal year 2000.

f) The monthly standard earnings base for social security pensions is upgraded to the 98,000 to 620,000 yen range from October 2000.

g) The benefit/contribution base is to be shifted from monthly standard earnings to annual earnings including semi-annual bonuses from fiscal year 2003. The shift is to be adjusted to induce no changes in aggregate income from contributions in 2003.

h) The rebates on contributions for contracted-out schemes are to be frozen from fiscal year 1999.

i) A 50 per cent flat-rate contribution for the non-employees is to be newly introduced from fiscal year 2002. This is mainly for low-income groups. Their basic benefit will be two-thirds of the full amount. Students aged 20 and over are to be able to postpone paying in their flat-rate contributions for ten years at the most. They are, however, to be eligible for the full basic disability benefit during years of non-payment.

By these measures, aggregate pension benefits will be reduced by 20 per cent by 2025. As a result, the anticipated contribution rate for private-sector employees will peak by 2025 at 25.2 per cent, instead of 34.5 per cent without the reforms (the rate estimated on the basis of monthly standard earnings). The flat-rate monthly contributions for non-employee people will peak by 2021 at 18,200 yen (instead of 26,400 yen) at 1999 prices.