

Figure 1: Current Retirement Systems in Japan

Number of participants in parentheses

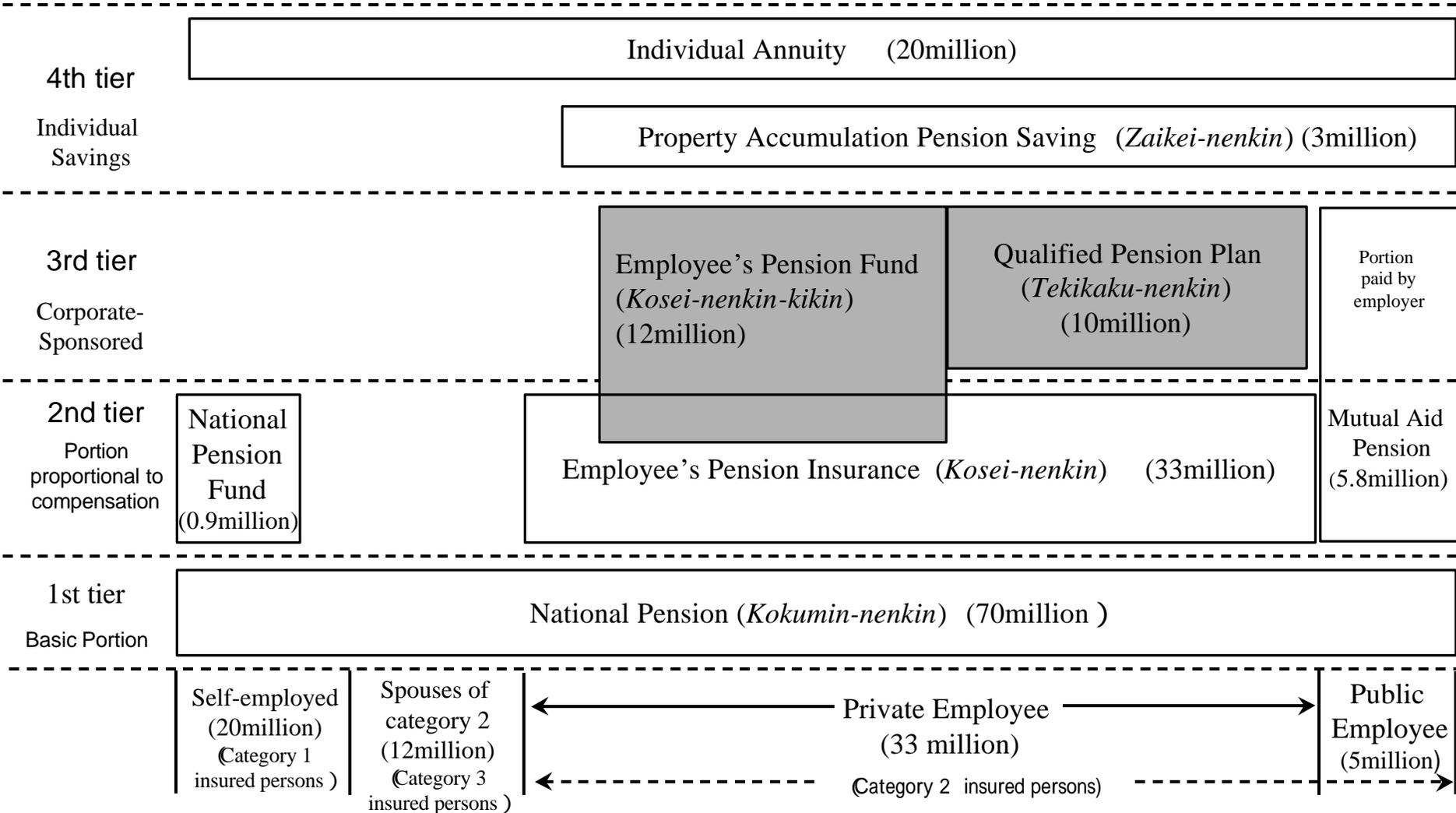


Figure 2: Existing DB Schemes in Japan

		Employee's Pension Fund	Qualified Pension Plan
Regulatory Body		Ministry of Health, Labor and Welfare	Ministry of Finance
Substitution of Social Security		Yes A portion of Employee's Pension Insurance (social security) benefits which are proportional to your pay is provided by Employee's Pension Fund	No
Plan Management		Plan sponsors must establish a separate entity, Employee's Pension Fund, to manage plans	Plan sponsors make a contract with providers, such as life insurance companies and trust banks, to manage plans
Form of Benefit		Life annuities must be provided	Life annuities are not necessarily required
Taxation	Contribution	- Employer contribution : deductible (no limit) - Employee contribution : deductible as Social Security Premium Deduction (no limit)	- Employer contribution : deductible (no limit) - Employee contribution : deductible as Life Insurance Premium Deduction (¥ 50,000 annual limit)
	Investment	-No tax on investment earnings -Special Corporate Tax is NOT imposed on the asset balance up to the certain limit <Taxation is suspended until March 2003>	-No tax on investment earnings -Special Corporate Tax (1.173%) is imposed on the asset balance. <Taxation is suspended until March 2003>
	Benefit	- Annuity : taxable, but Deduction for Annuity Payments applies - Lump-sum : taxable, but Deduction for Lump-sum Payment applies & separately taxed	

Figure 3: U.S. DC Plans vs. Japanese DC Plans

		Who is the main contributor ?		U.S.	Japan
Employer-Sponsored Plans	Employers	<p>Money Purchase Plans Contributions are fixed regardless of company profits.</p> <p>Profit Sharing Plans Contributions can be changed at employers' discretion.</p>		<p>Employer-sponsored Type DC Contributions are fixed regardless of company profits. Employees cannot make contributions.</p>	
	Employees	<p>401(k) Plans Employees choose whether to participate and how much to contribute from their pay. Employers make matching contributions.</p>			
Individual Plans	Individuals	<p>IRA (Individual Retirement Account) Individuals make contributions at their discretion.</p>		<p>Individual Type DC Employees choose whether to participate and how much to contribute from their pay. Employers cannot make matching contributions. Individuals make contributions at their discretion.</p>	

Figure 4: Eligibility and Contribution Limits

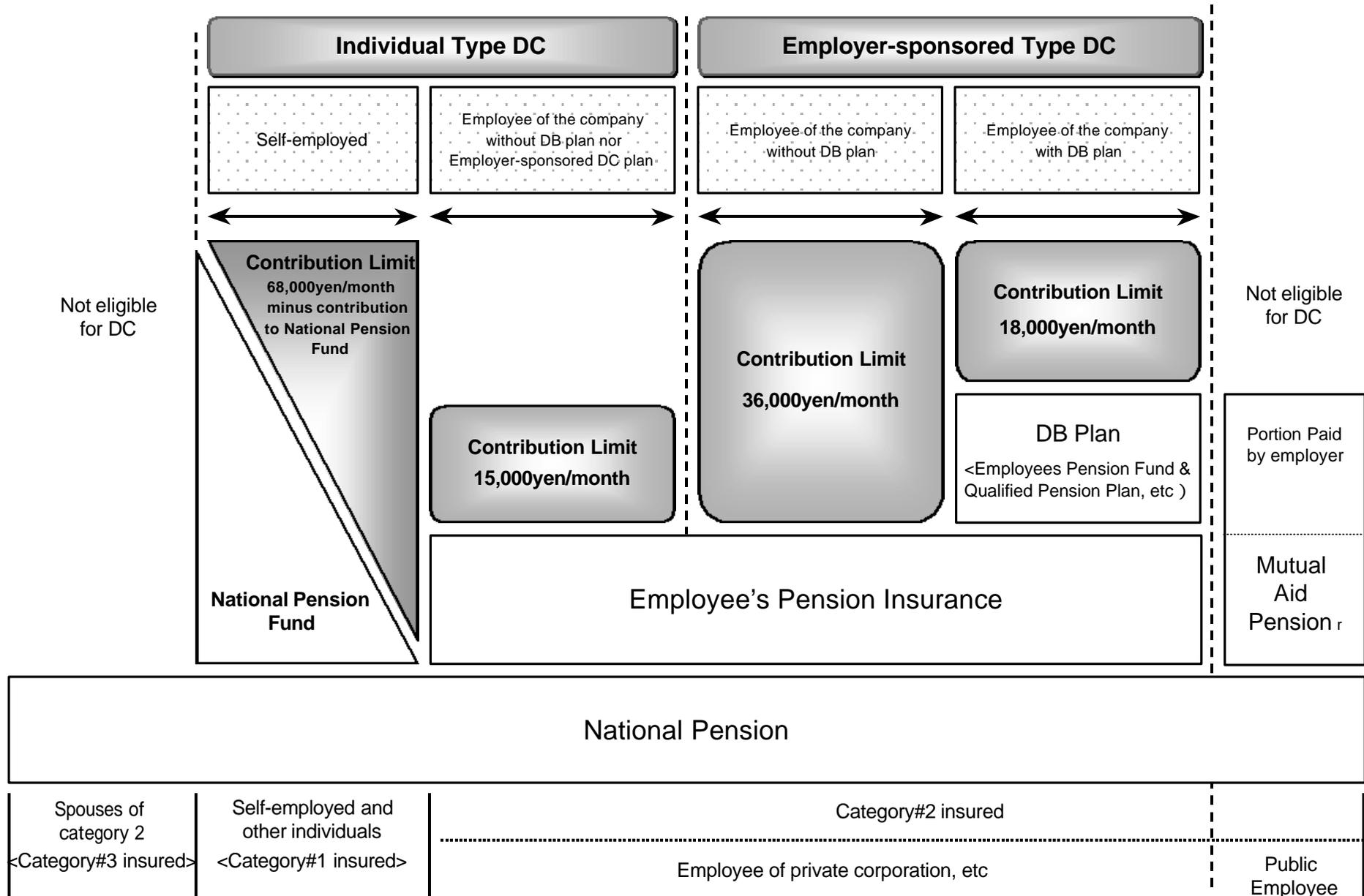


Figure 5: Eligibility of DC Plan -Flow-chart-

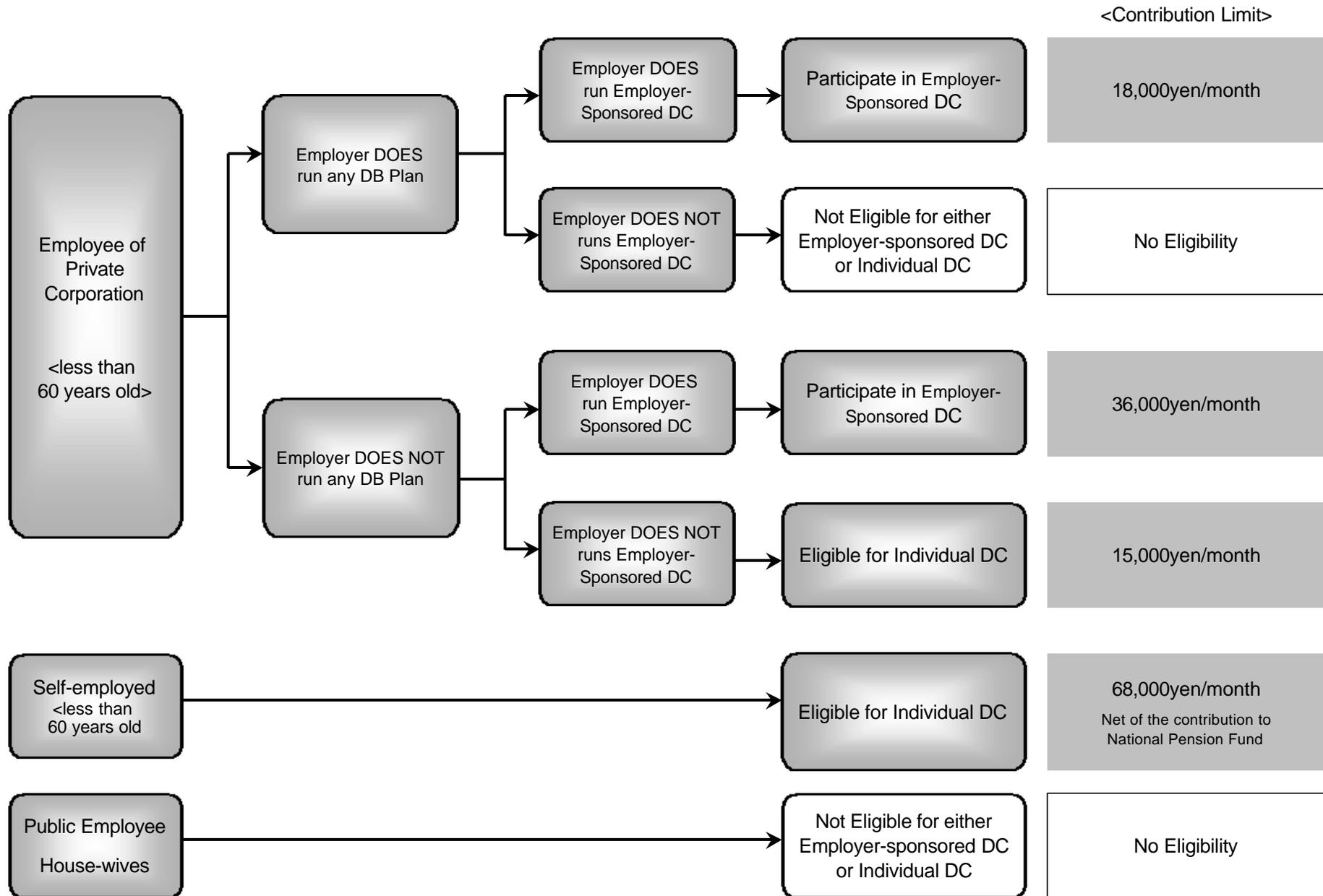


Figure 6: Who Play What Kind of Roles in Employer-sponsored Type DC ?

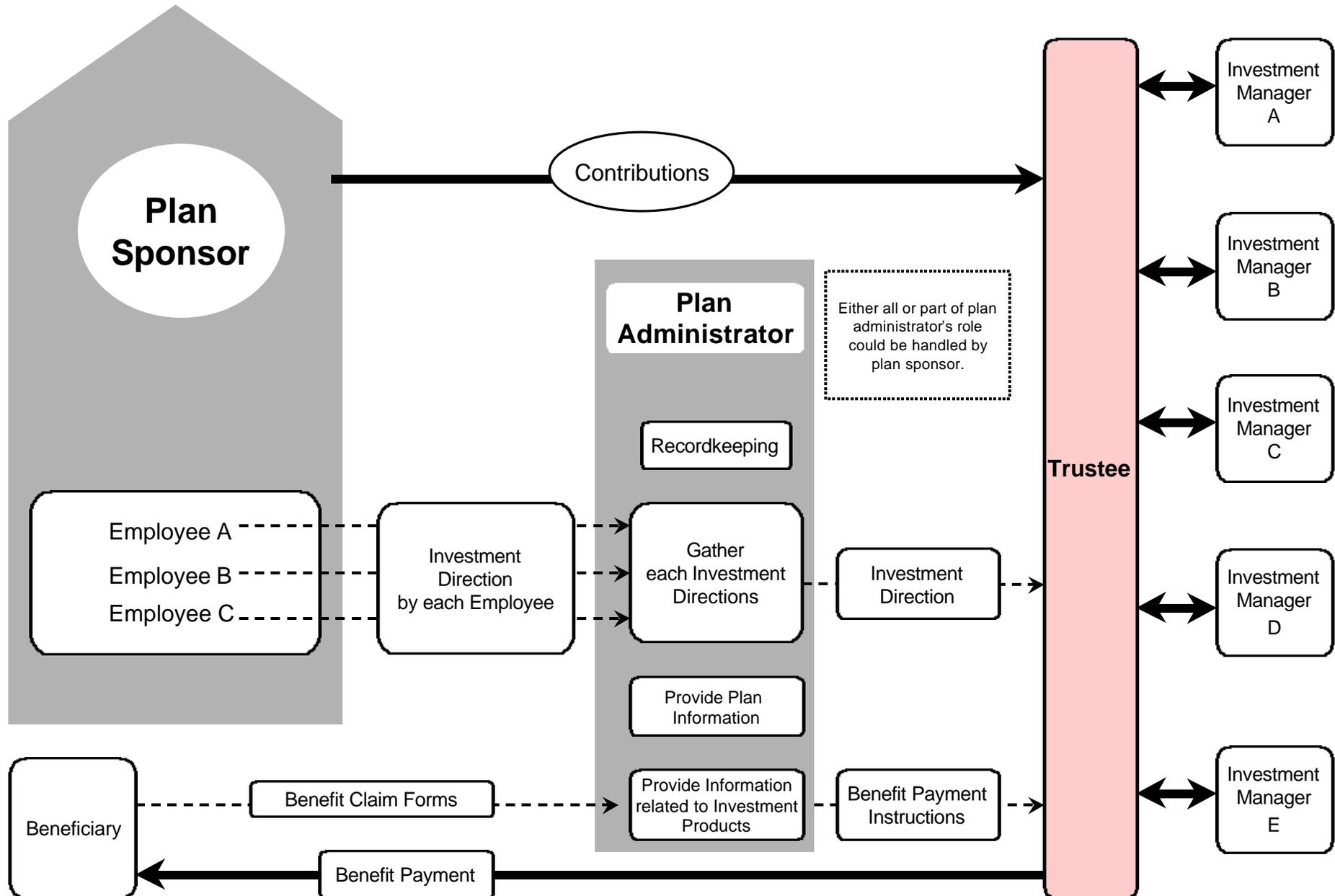


Figure 7: Who Play What Kind of Roles in Individual Type DC ?

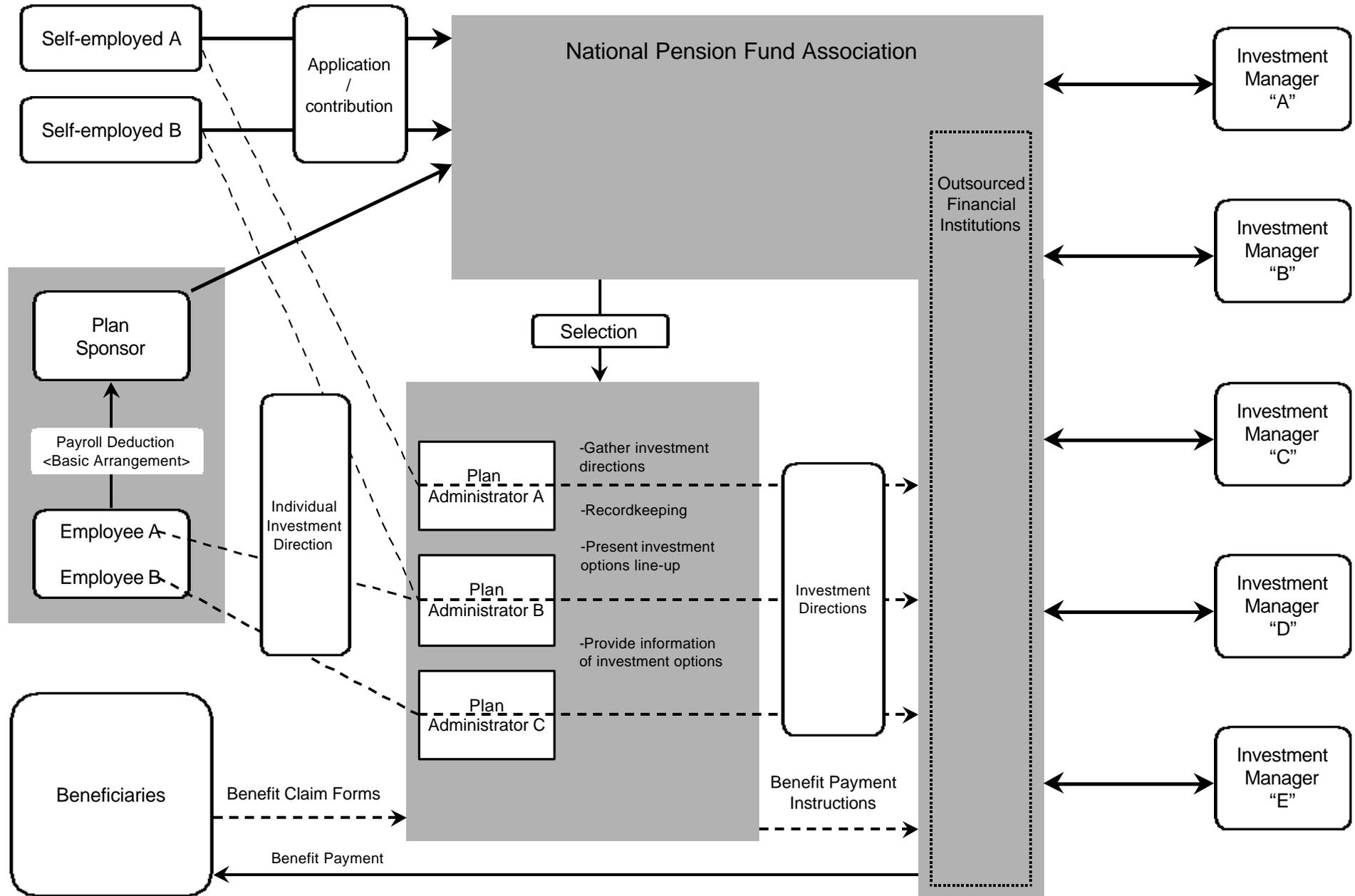
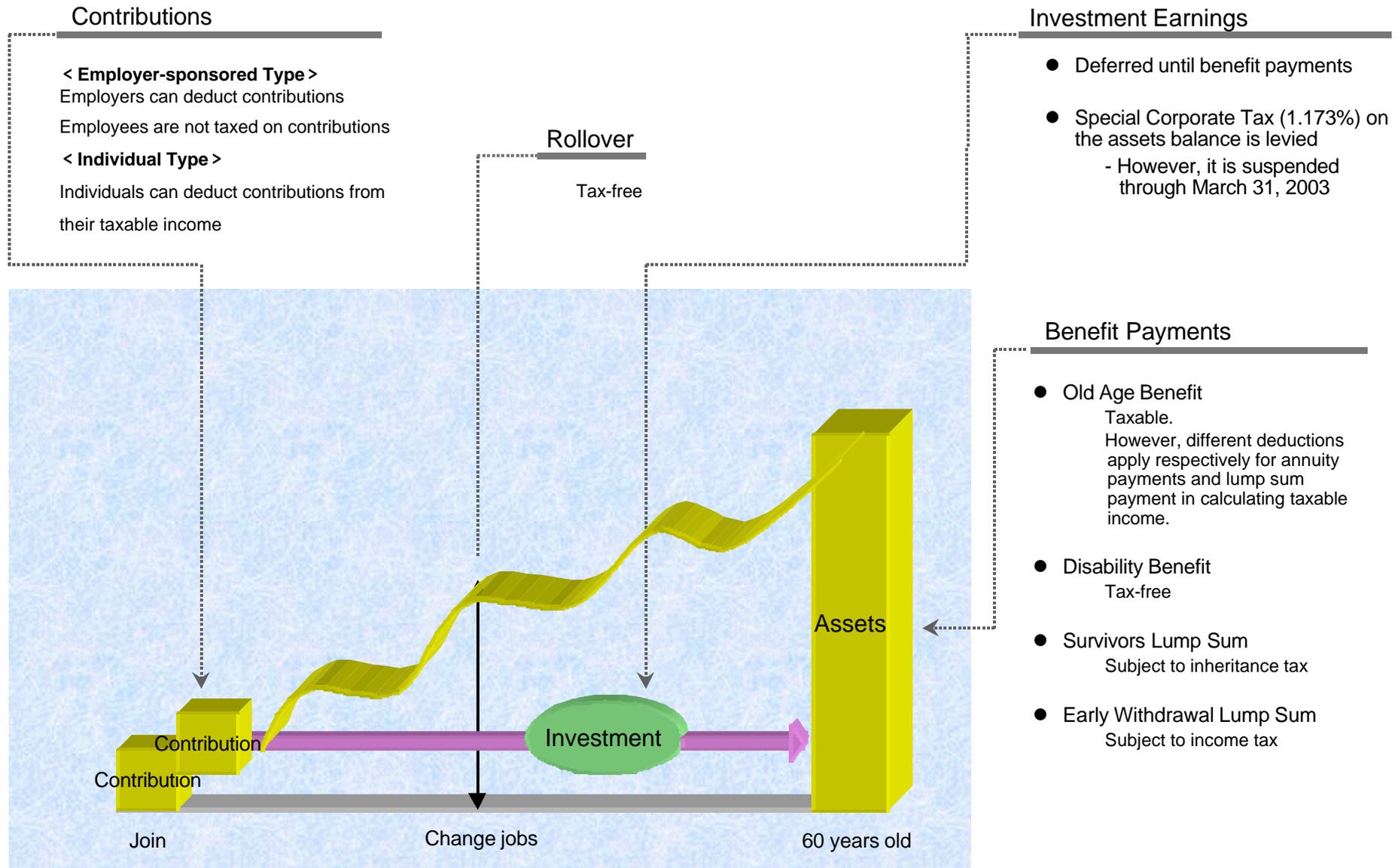


Figure 8: Tax on Defined Contribution Plans



Appendix 1: Deductions for Benefits

1 . Deductions for annuity payments

- When receiving in the form of annuities, the following deductions apply.
- All annuities from social securities, DB plans, DC plans are combined before applying the deductions.

Age 65 or more

<u>Amount of Annuities</u>	<u>Deductions</u>
Less than 2.6 mil yen	1.4 mil yen
2.6mil - 4.6mil yen	Amount times 25%+0.75mil yen
4.6mil – 8.2mil yen	Amount times 15%+1.21mil yen
More than 8.2mil yen	Amount times 5%+ 203mil yen

Less than 65 Years Old

<u>Amount of Annuities</u>	<u>Deductions</u>
Less than 1.3 mil yen	0.7mil yen
1.3mil - 4.1mil yen	Amount times 25%+0.375mil yen
4.1mil – 7.7mil yen	Amount times 15%+0.785mil yen
More than 7.7mil yen	Amount times 5%+ 1.555mil yen

2 . Deductions for lump-sum payment

- When receiving lump-sum payment, the following deductions apply.
- All lump-sum money from retirement benefits, DB plans, DC plans are combined before applying the deductions.

<u>Years of Service</u>	<u>Deductions</u>
Up to 20 years	Years times 0.4mil yen
Beyond 20years	Years over 20 times 0.7mil yen + 8mil yen

<Examples>

- If you work for 10 years 4 mil yen (10 x 0.4mil)
- If you work for 20 years 8 mil yen (20 x 0.4 mil)
- If you work for 30 years 15 mil yen ((30-20)x0.7+8 mil yen)

- The amount remaining after the deductions should be divided by 2 to reach the taxable income.
- Separately taxed.

Appendix 2: Benefit Projection

Assumptions:

You receive the maximum contributions from the start of your employment (age 22) until age 60

Contribution Amount	Investment Return	Assets at Age 60	Comparison with the average benefits
18,000 Yen per Month (216,000 Yen per Year)	3%	15.28 Million Yen	55%
	4%	19.23 Million Yen	69%
	5%	24.45 Million Yen	87%

Percentage of the average total retirement benefits per employee (28 Million Yen)

Note: Salary and retirement benefit data is from Japan Federation of Employers Associations research of September 1998.

Appendix 3: Comparison of U.S. 401(k) and Japanese Employer-Sponsored DC

	United States 401(k)	Japanese Employer-Sponsored DC
Who May Contribute	<ul style="list-style-type: none"> • Employees & Employers (matching contributions / discretionary contributions) 	<ul style="list-style-type: none"> • Employers Only
Annual Contribution Limit	<ul style="list-style-type: none"> • Pre-tax Employee Contribution Limit: \$10,500 (in 2001) • Aggregate DC Contribution Limit: Lower of \$35,000 or 25% of pay 	<ul style="list-style-type: none"> • Employer Contribution Limit: 432,000 yen for employer without DB plan 216,000 yen for employer with DB plan
Eligibility	<ul style="list-style-type: none"> • All employees 21 years or older with at least 1 year of service must be allowed to join a plan. • Maximum age requirements are prohibited 	<ul style="list-style-type: none"> • To be determined by plan rules • Participants must be less than 60 years old
Vesting	<ul style="list-style-type: none"> • Employee contributions: immediately 100% vested • Minimum requirement for employer contributions: 100% vesting after 5 years or graded vesting in 20% increments from 3rd through 7th year) 	<ul style="list-style-type: none"> • Minimum requirement : 100% vesting after 3 years.
Investment Options	<ul style="list-style-type: none"> • ERISA 404(c) plans require minimum of 3 options with different risk/return (company stock may also be an option but does not count toward one of the 3 options) & Switching among investment options must be allowed at least every three months. 	<ul style="list-style-type: none"> • Minimum of 3 options (company stock may also be an option but does not count toward one of the 3 options) • Switching among investment options must be allowed at least every three months • At least one option must be a capital guaranteed product.

Appendix 3: Comparison of U.S. 401(k) and Japanese Employer-Sponsored DC
(continued)

	United States 401(k)	Japanese Employer-Sponsored DC
Benefits Distribution	<ul style="list-style-type: none"> • Separation from service, Normal retirement age, At 59.5 years old, Death, and Disability. • Minimum distribution rule: You must begin receiving benefits when you reach 70.5 years old (unless continue working) 	<ul style="list-style-type: none"> • At 60 years old , Death, and Disability • You cannot receive benefits when you leave company unless you are 60 years old or older. • You must begin receiving benefits at 70 years old.
Loans and Financial Hardship Withdrawals	<ul style="list-style-type: none"> • Yes (hardship withdrawal subject to income tax and 10% penalty tax) 	<ul style="list-style-type: none"> • Not allowed
Portability & Rollover	<ul style="list-style-type: none"> • Discretionary rollover to new employer's 401(k) plan or IRA. • You may leave your assets with the old employer's plan. • No tax on rollover assets. 	<ul style="list-style-type: none"> • Mandatory rollover to new employer's DC plan or Individual Type DC. • You cannot leave your assets with the old employer's plan. • No tax on rollover assets
Tax	<ul style="list-style-type: none"> • Contributions: tax deductible • Investment Earnings: not taxed • Benefits: subject to income tax 	<ul style="list-style-type: none"> • Contributions: tax deductible • Investment Earnings: not taxed • Special Corporate Tax: 1.173% on account balances • Old age benefits: taxable but some deductions apply • Disability benefits: tax-free • Death benefits: subject to inheritance tax

Figure 9: Two New DB Plans Introduced by DB Bill

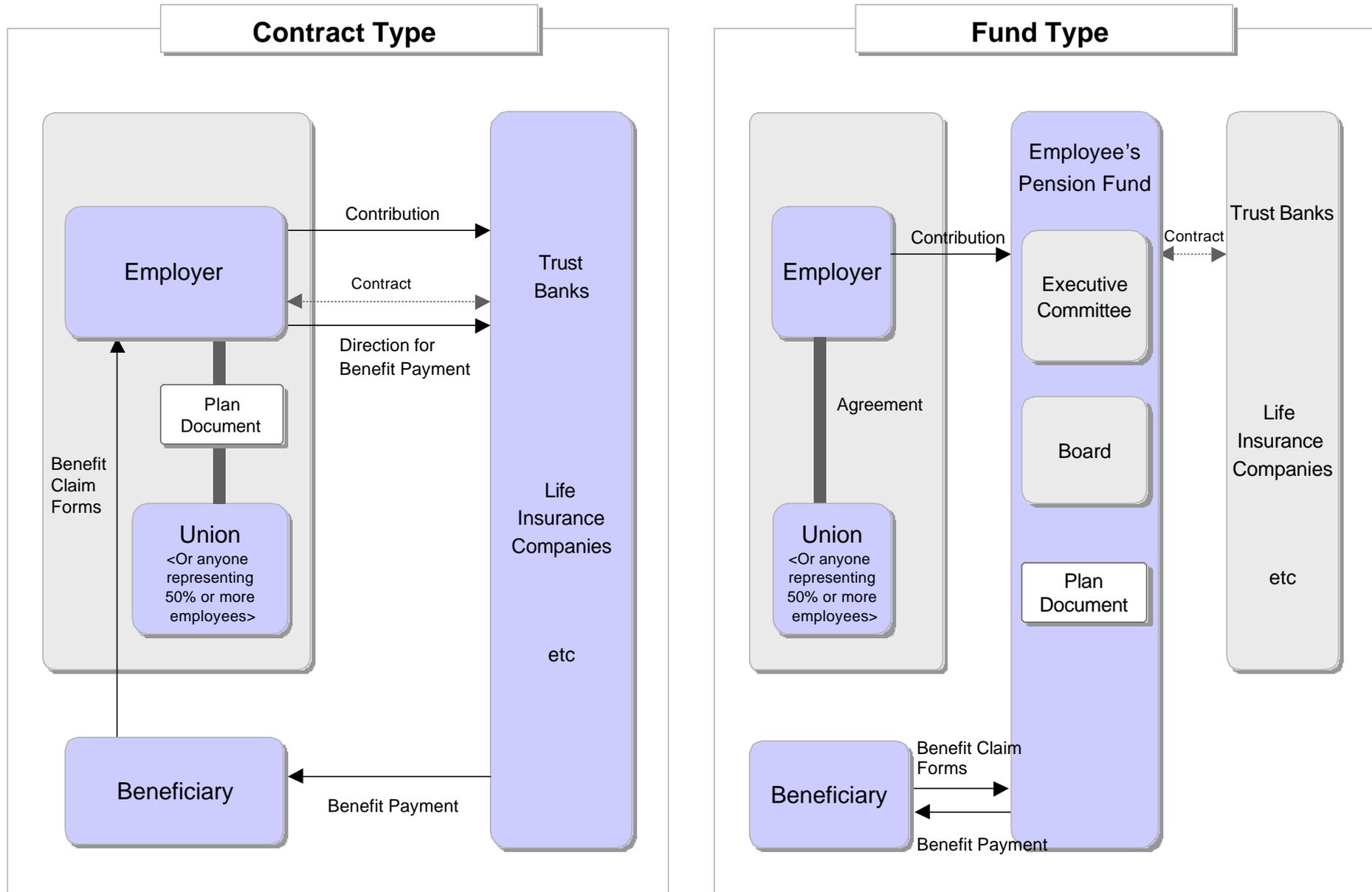


Figure 10: Plan Sponsors can Switch among New Pension Schemes

