

The Japanese Public Pension System: What Went Wrong and What Reform Measures We Have

by

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Organization

Brief Outline of Current Provisions

Demography

Basic Facts:

Identifying Main JPN Problems

Future Policy Options

Concluding Remarks

Brief Outline of Current Provisions

2-tier Benefits

Contributions

The Biggest Business

Two-tier Benefits (DB)

Basic Flat-rate Benefits (PM, PP)

66,400 yen = Euro 516

Earnings-related Benefits (40Yrs)

28.5% of Career Average Monthly Real Earnings

Replacement Rate (One-earner Couple)

Around 60% Net (230,000 yen = Euro 1,780)

CPI Indexation

Contributions/Transfer from GR

Contributions

13.58% of **Annual Wages**

13,300 yen = Euro 103 (PM, PP)

Subsidy from General Revenue

1/3 of Flat-rate Basic Benefits

Mainly PAYG, but

with Partial Prefunding

The Biggest Business in Japan

Aggregate SS Pension Benefits

44 tr. Yen = Euro 341 billion in 2003
(12% of National Income)

cf. The Automobile Industry

40 tr. Yen (Domestic Output in 2000)

Rapidly Growing

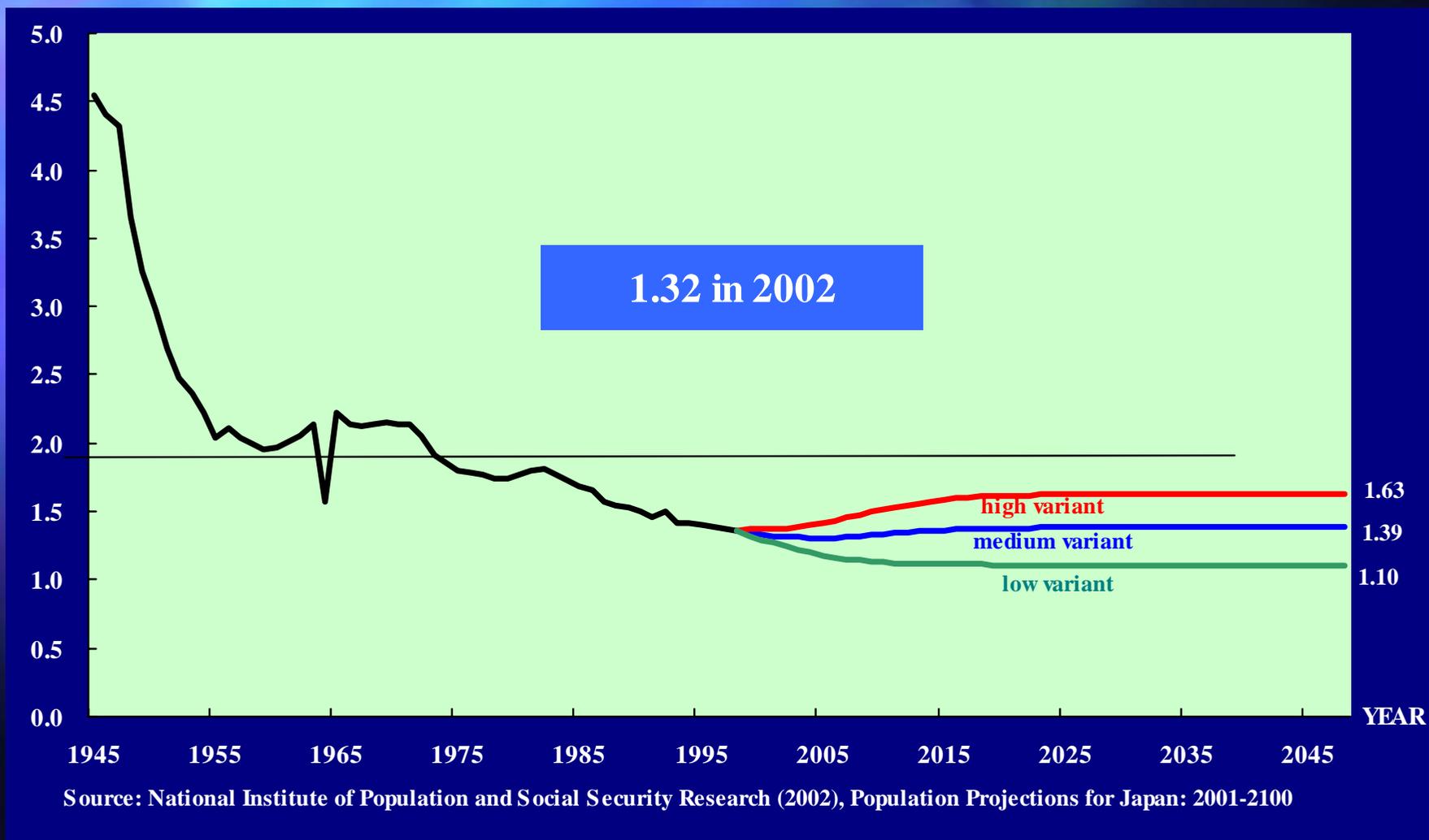
Demography

TFR

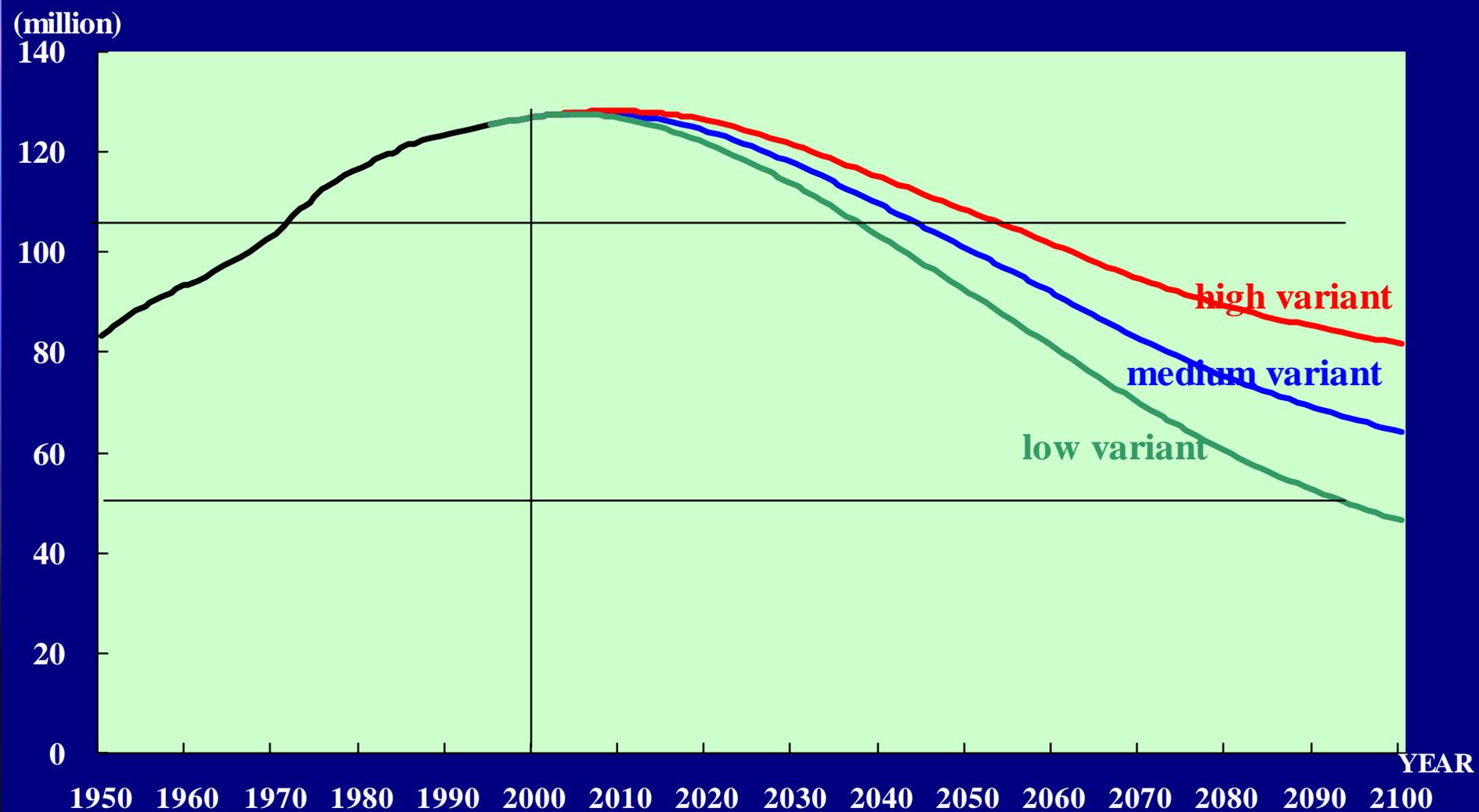
Total No. of Populations

Proportion of 65+

Trends in the Total Fertility Rate of Japan

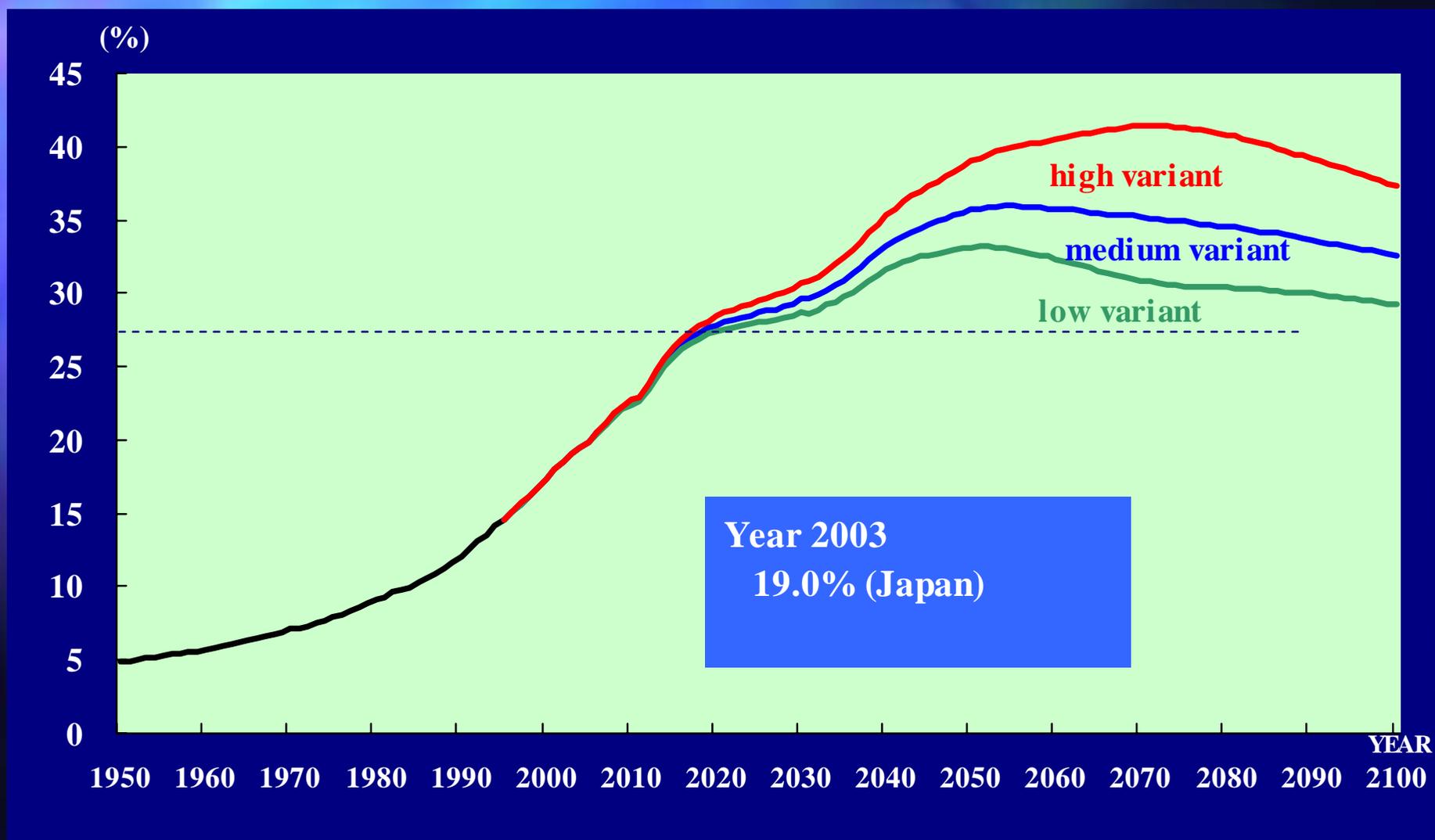


Actual and Projected Population of Japan



Source: National Institute of Population and Social Security Research (2002), *Population Projections for Japan: 2001-2100*

Proportion of the Elderly (+65) in Japan



Source: National Institute of Population and Social Security Research (2002), Population Projections for Japan: 2001-2100

Basic Facts

Deficit in Current Account

Balance Sheet:

Huge Excess Liabilities

SS Pension Contributions:

Heavy Burdens Outstanding

**Too Much Income Transfers between
Generations**

Increasing Drop-out

Current Account of the KNH

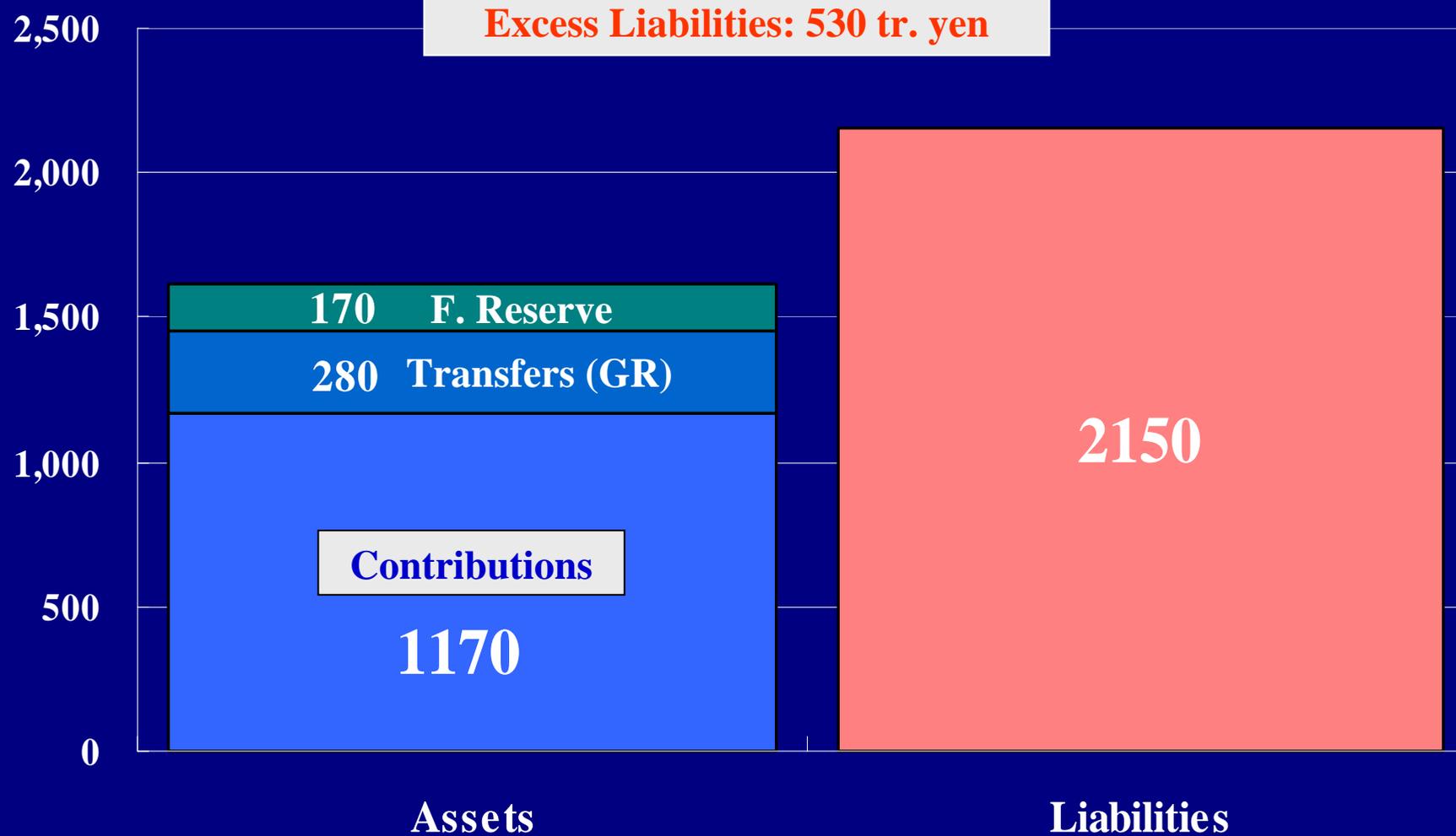
(trillion yen)



Balance Sheet of the KNH

(as at the 31st MAR 2000)

(trillion yen)



Balance Sheet of the KNH (Part 1)

14

(as at the 31st MAR 2000)

Pension Liabilities Accrued from **FUTURE** Contributions

(trillion yen)

1,600

1,400

1,200

1,000

800

600

400

200

0

Excess Liabilities: 80 tr. yen

180 Transfers (GR)

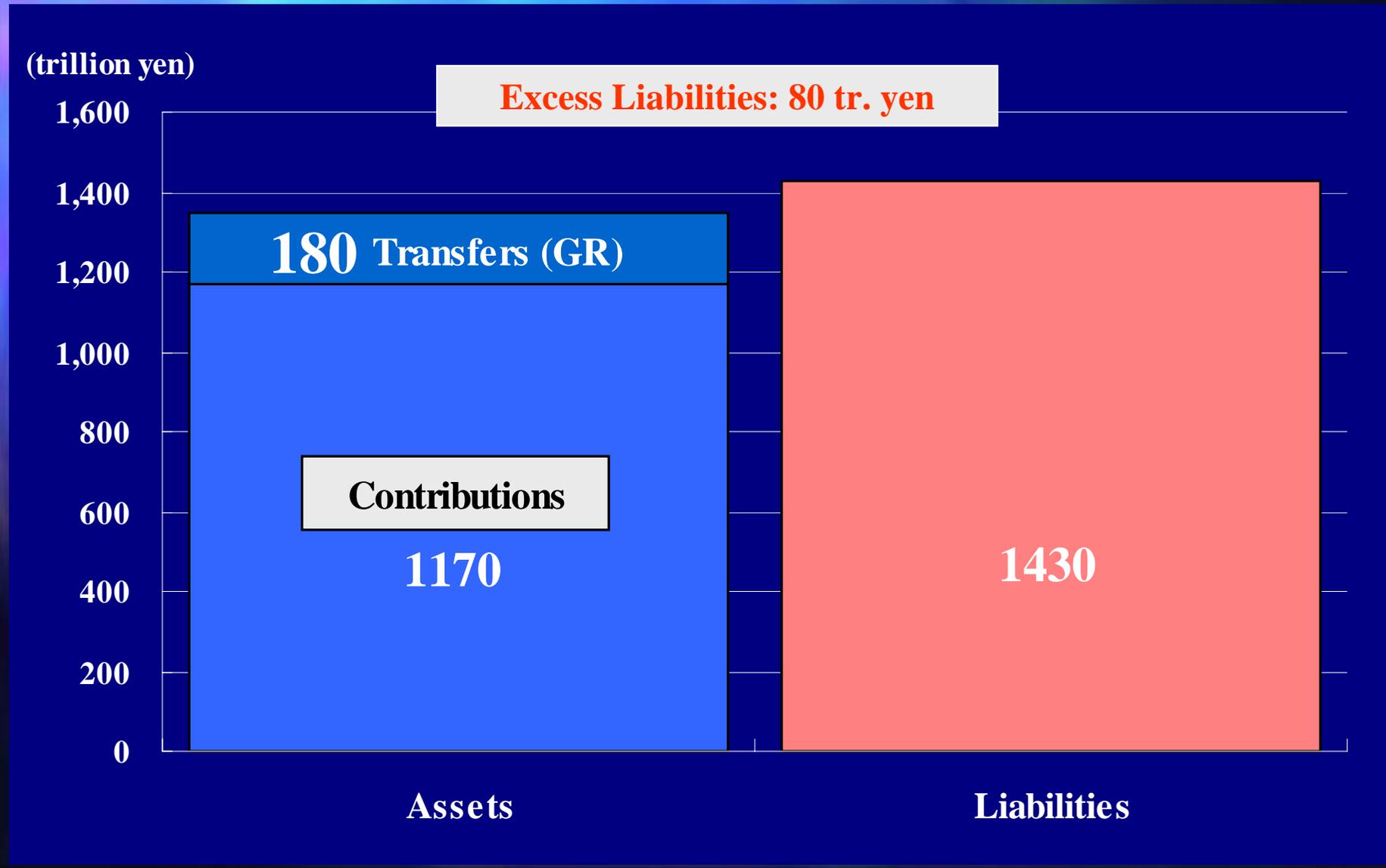
Contributions

1170

1430

Assets

Liabilities



Balance Sheet of the KNH (Part 2)

(as at the 31st MAR 2000)

Pension Liabilities Accrued from **PAST** Contributions

(trillion yen)

800

700

600

500

400

300

200

100

0

Excess Liabilities: 450 tr. yen

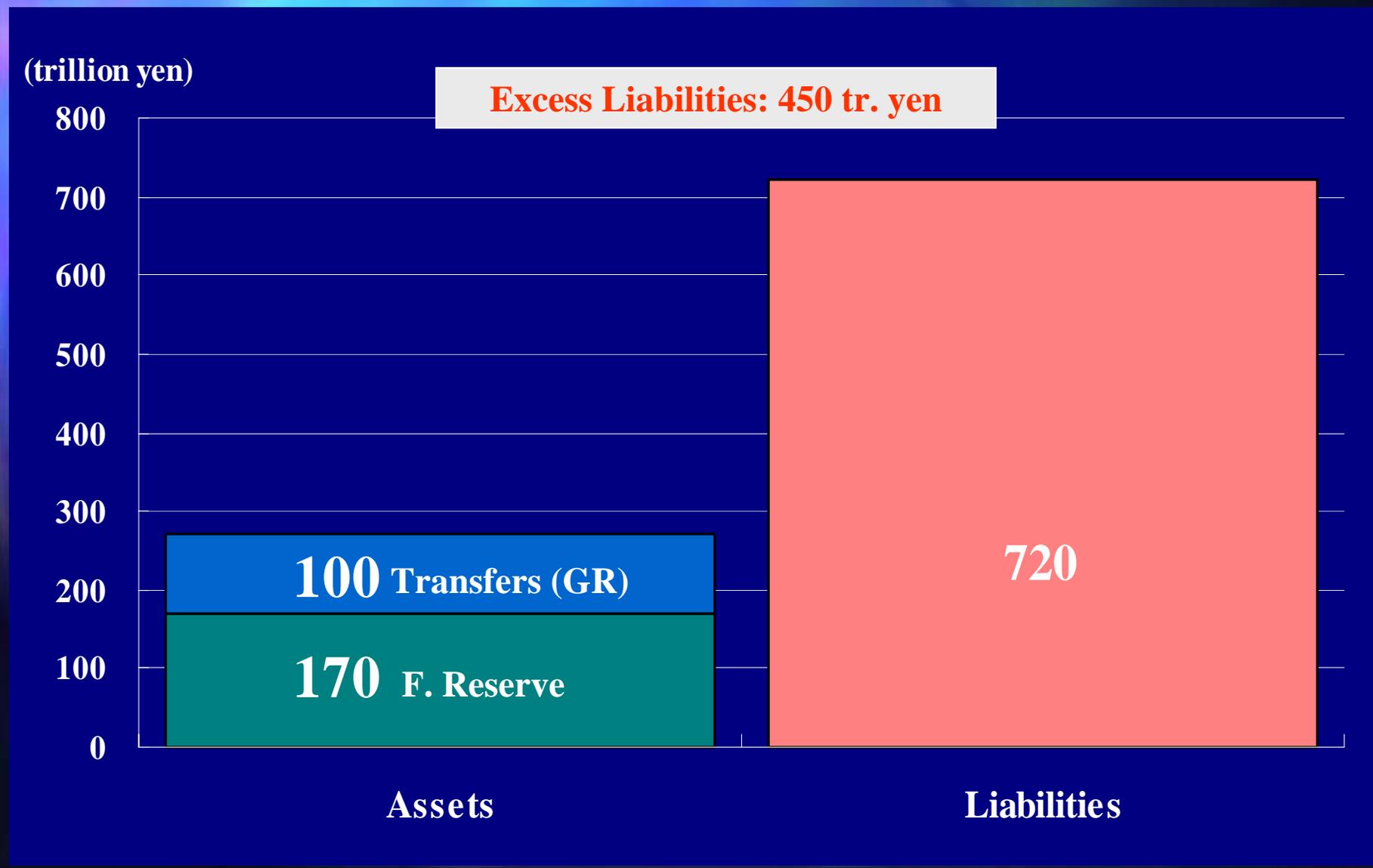
100 Transfers (GR)

170 F. Reserve

720

Assets

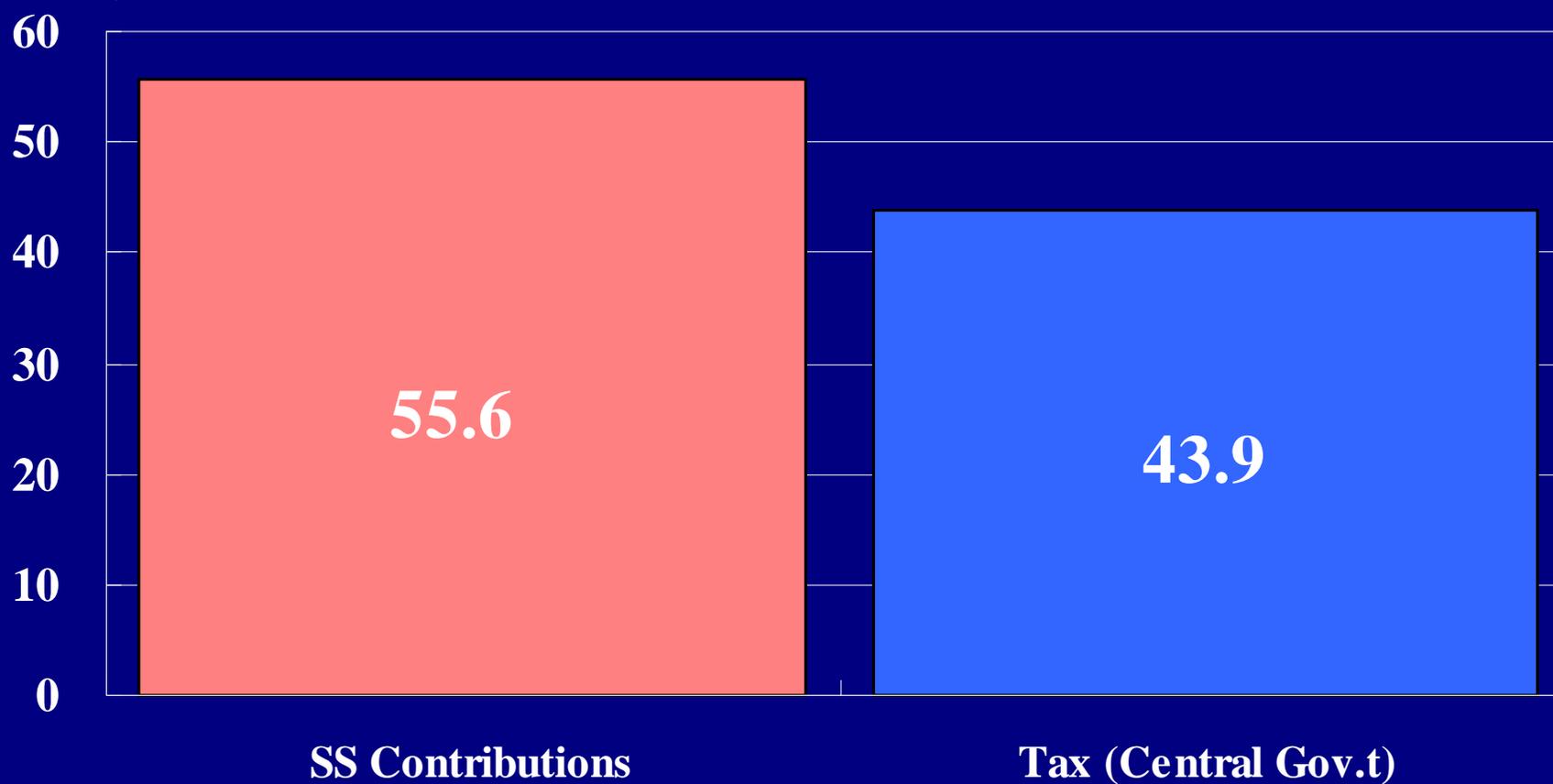
Liabilities



Which Is More, SS Contributions or Tax Revenues?

FY 2003 National Budget, Japan

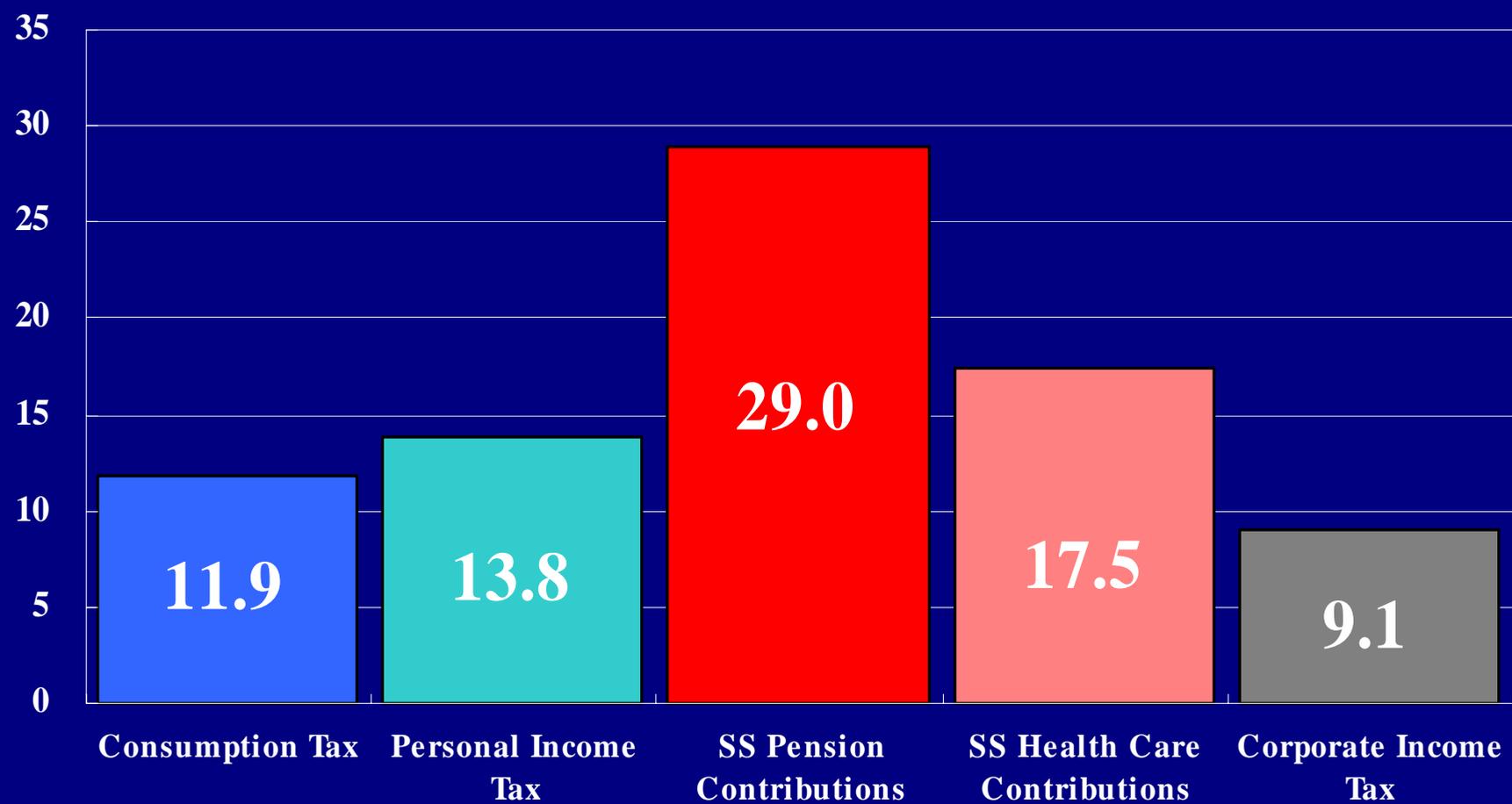
(trillion yen)



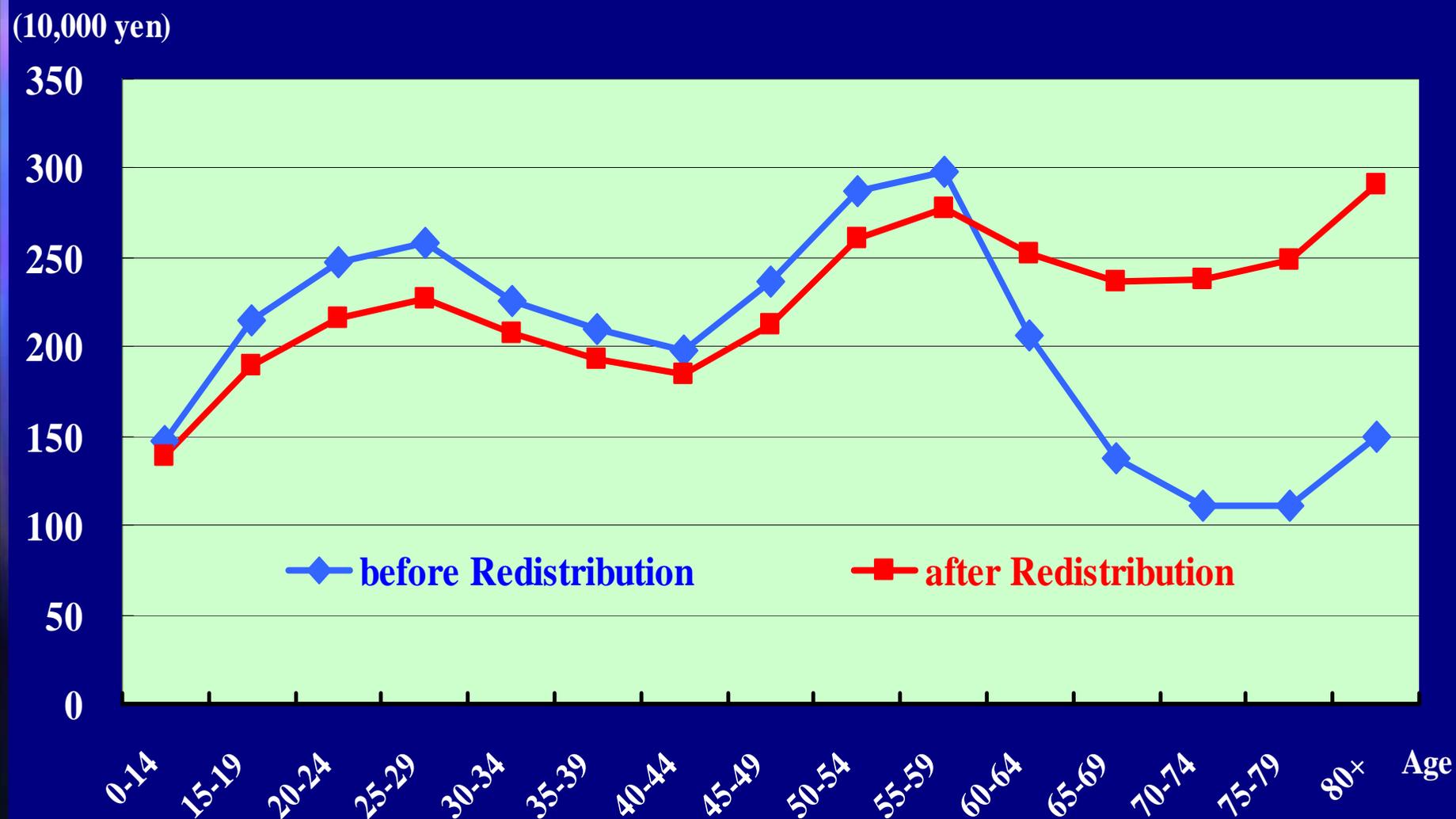
Main Income Sources of Japan's Central Government

FY 2003 National Budget, Japan

(trillion yen)

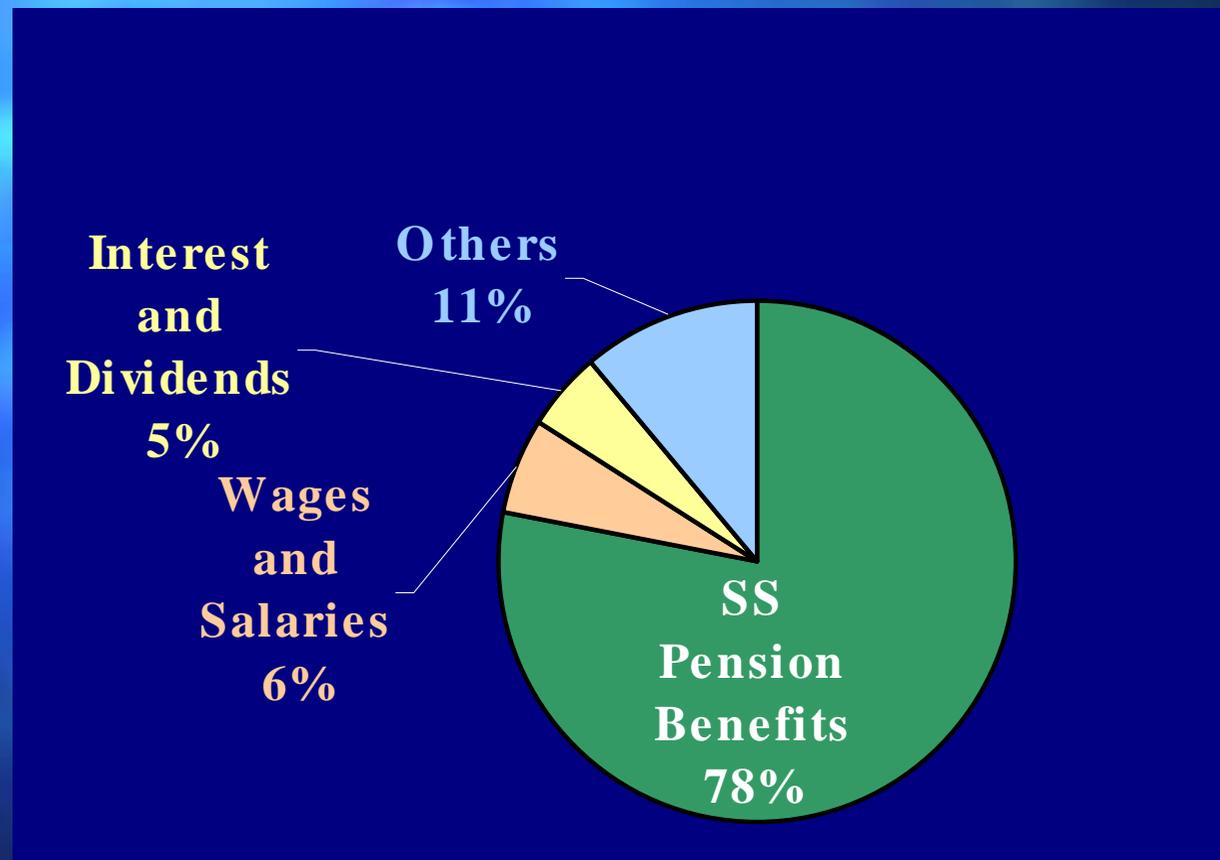


Per-capita Income by Age in Japan



Source: Ministry of Health and Welfare, *The 1996 Income Redistribution Survey*

SS pension benefits are the major source of retirement income

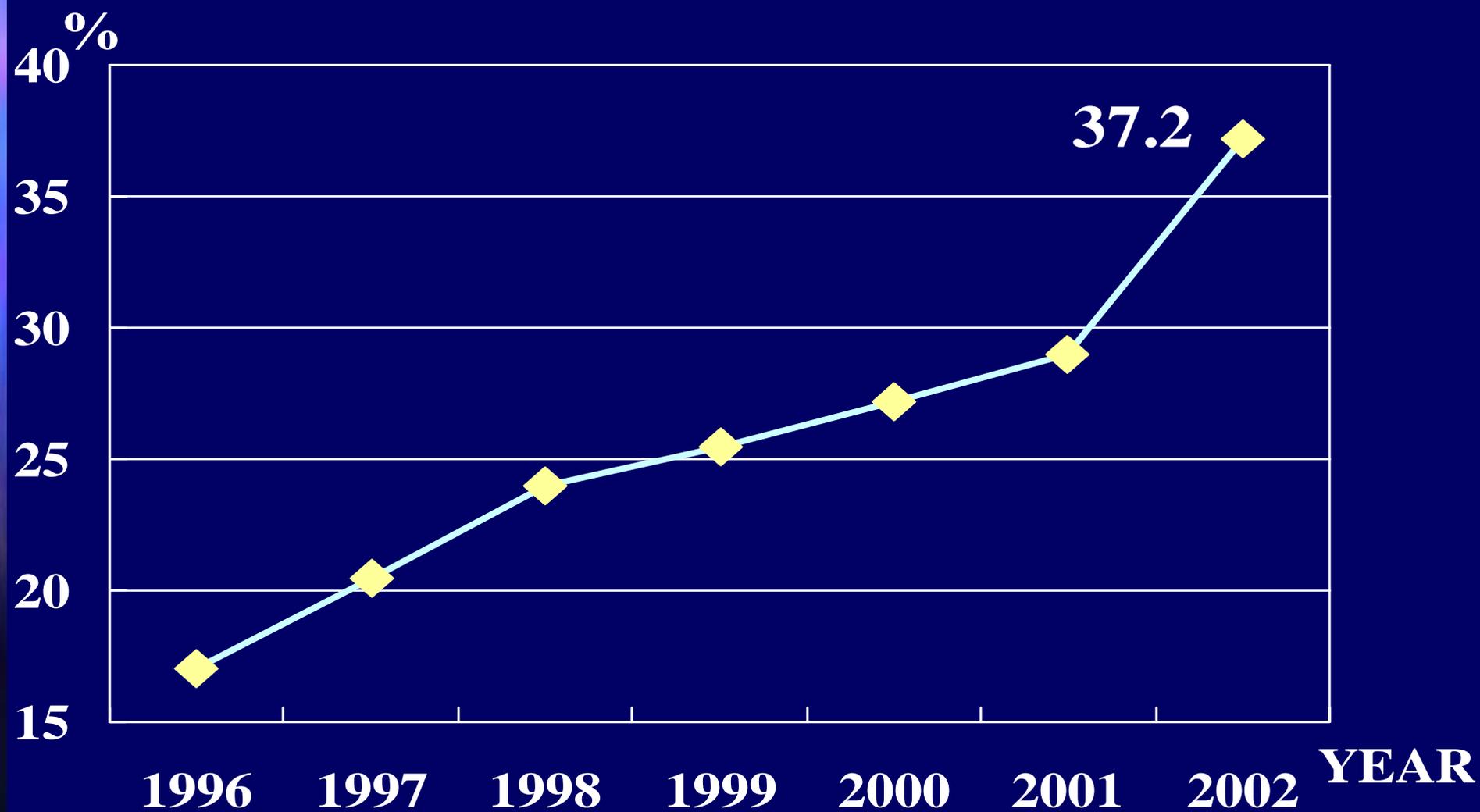


median income: 3.38 million yen

Source: *The 1989 NSFIE* (elderly couples: median income group)

Drop-out from SS Pensions (Non-employees)

Delinquency in Paying Pension Contributions



Future Policy Options

Is NDC the Answer?

Other Policy Concerns

Is NDC the Answer?

How Helpful?

Any JPN-specific Problems Remaining?

Politically Feasible?

Strengthening Incentive-Compatibility

**Direct Link between Contributions
and Pension Benefits**

“Every Penny Counts”

Increased Credibility

JPN-specific Problems

Income Reporting Reliable?

Legacy Pensions

Huge Excess Liabilities

Reducing EL:

Several Options

Option 1: Reducing Benefits

Deflation-Indexing

A Clawback System

“Macroeconomic Indexation”

Increasing the NRA to 67

Deducting Contributions for Health Care

More Taxes on Benefits

Option 2: Increasing Contributions

Incentive-compatible?

What Matters is **Taste of Pie**

Penalties on Employment

Non-neutral & Regressive

Income Tax Revenues

Option 3: Increasing Subsidies

Where to Go:

Flat-rate Basic Benefits ($1/3$ $1/2$) or
Guaranteed Pensions or
Legacy Pensions?

What Funding Source:

Consumption Tax or Income Tax or
Cutting Other Public Expenditure?

Other Policy Concerns

Relaxing the Earnings-test

Earnings-split between Husband & Wife

**Extending Coverage to Part-time
Employees**

Non-Employees:

Shift to Income-related Contributions

Strengthening Private Initiatives

Concluding Remarks

Options Vary among Different Ministries

No Concrete Proposals, Yet, from Political Parties

Government reform plan may be fixed by the end of DEC 2003