

# **Pension Issues in Japan:**

## **with a Special Focus on Coordination with Employment**

by

**Noriyuki Takayama, Prof. Dr.**  
**Hitotsubashi University and RIPP**  
[takayama@ier.hit-u.ac.jp](mailto:takayama@ier.hit-u.ac.jp)  
[n-takayama@nensoken.or.jp](mailto:n-takayama@nensoken.or.jp)

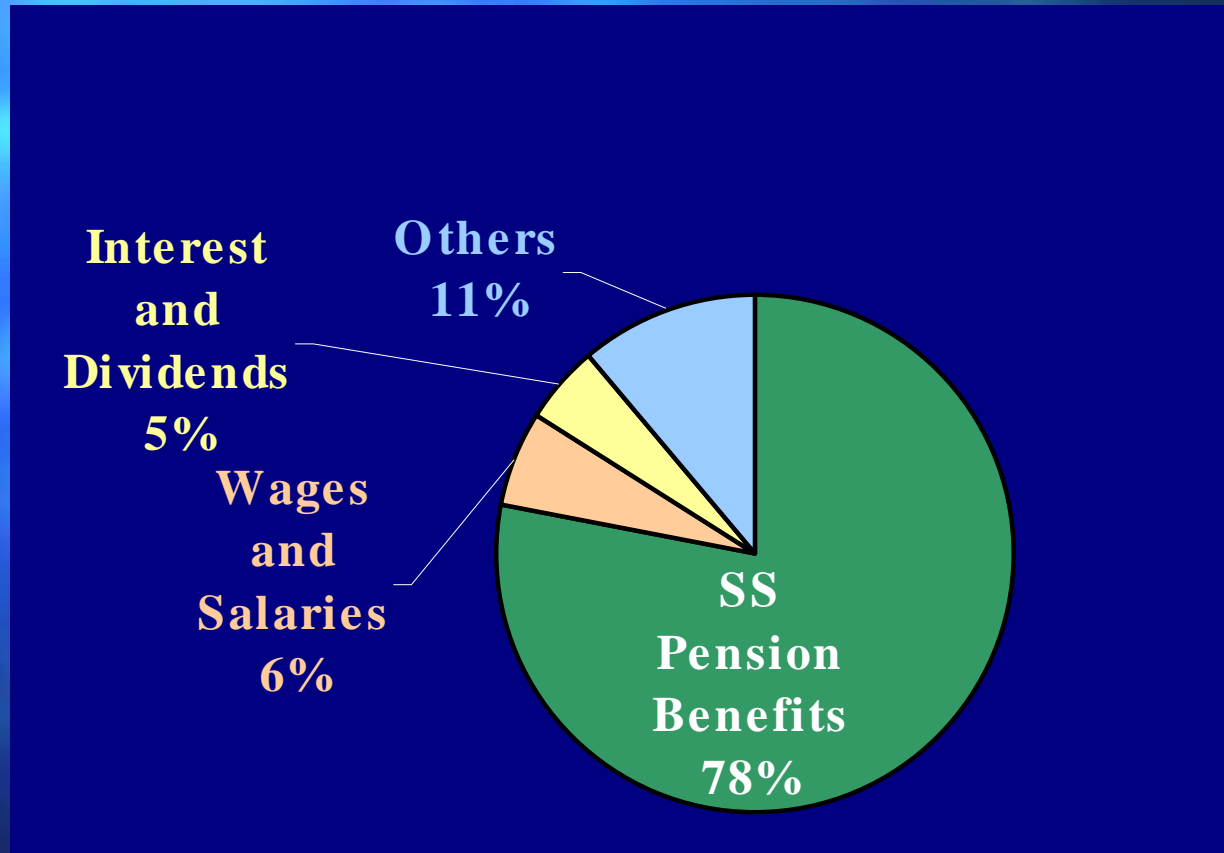
# Organization

- **JAPAN at a Glance**
- **Current Role of SS Pensions**
- **Demography and Financial Sustainability**
- **Coverage and Social Adequacy Issues**
- **Pensions and Employment: Young Generations**
- **Pensions and Employment: Elderly Workers**
- **Pensions and Employment: Female Workers**

# Japan at a Glance

● Population (in 2010)	127.4 million
● Population 65 +	29.4 million (23.1%)
● TFR (in 2010)	1.39
● GDP per capita (in 2010)	USD 42,820
● SS Pension Benefits (in 2009)	10.6% of GDP
● No. of SS Pension Enrollees	68.74 million (54%)
● No. of SS Pension Beneficiaries	37.03 million (29%)
● The Normal Pensionable Age	65

# SS pension benefits are the major source of retirement income

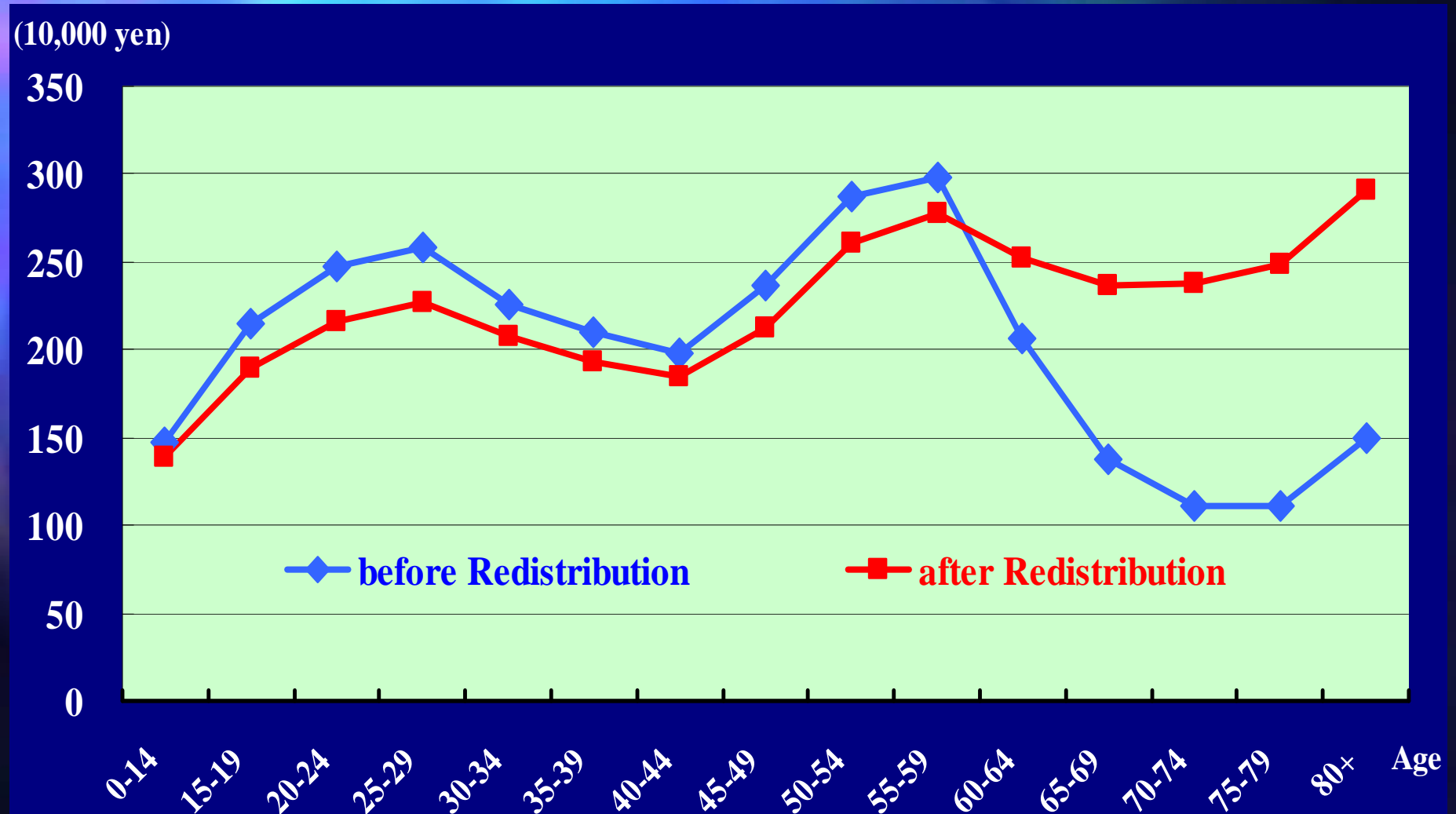


median income: 3.38 million yen

# Too Much Transfers from Younger Generations

- It is amazing that currently in Japan, the elderly are better off than those aged 30 to 44 in terms of per capita income after redistribution.
- Current pension benefits are still too generous and there is room for reduction in pension benefits.

# Per-capita Income by Age in Japan

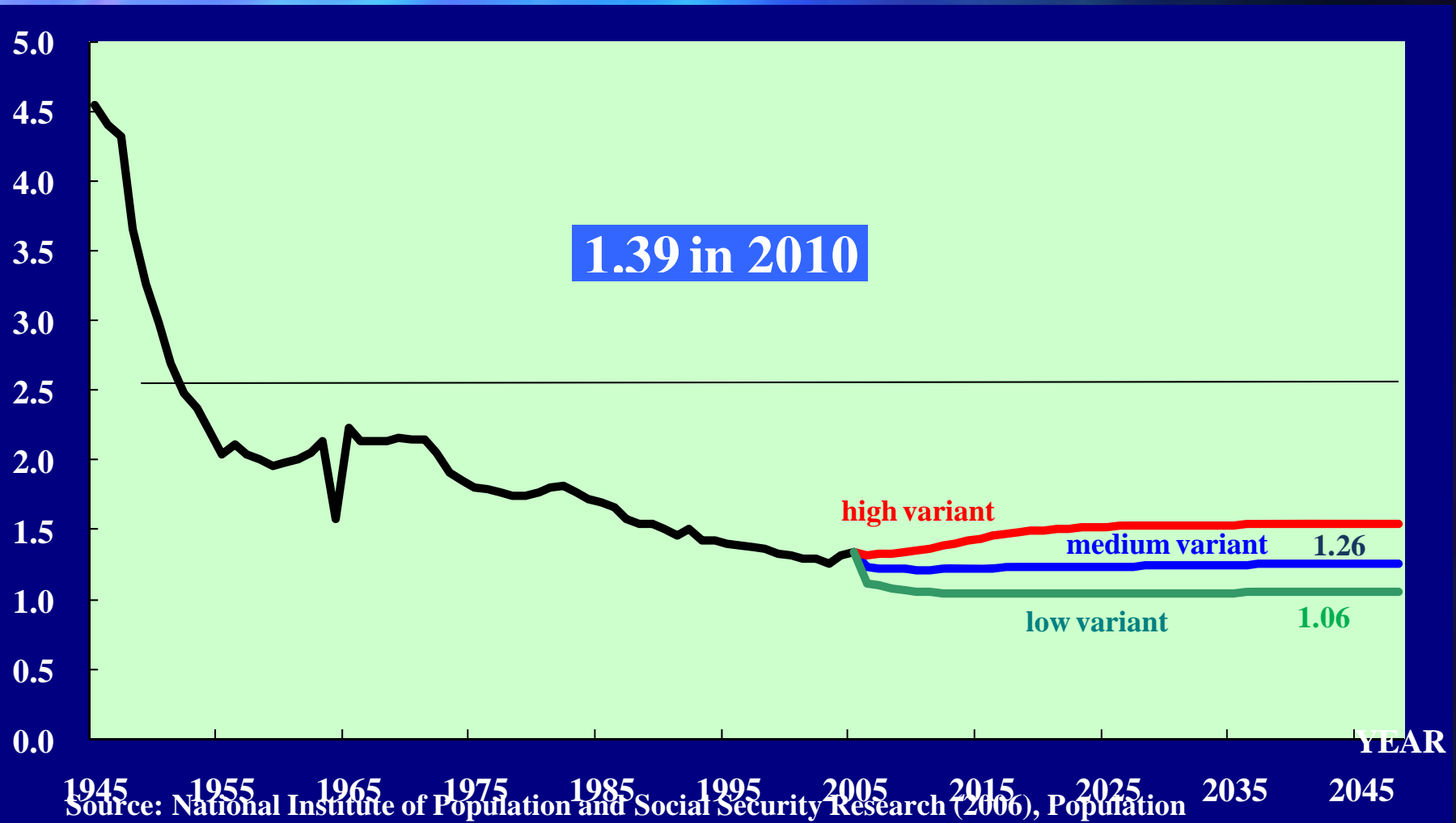


Source: Ministry of Health and Welfare, *The 1996 Income Redistribution Survey*

# Demography

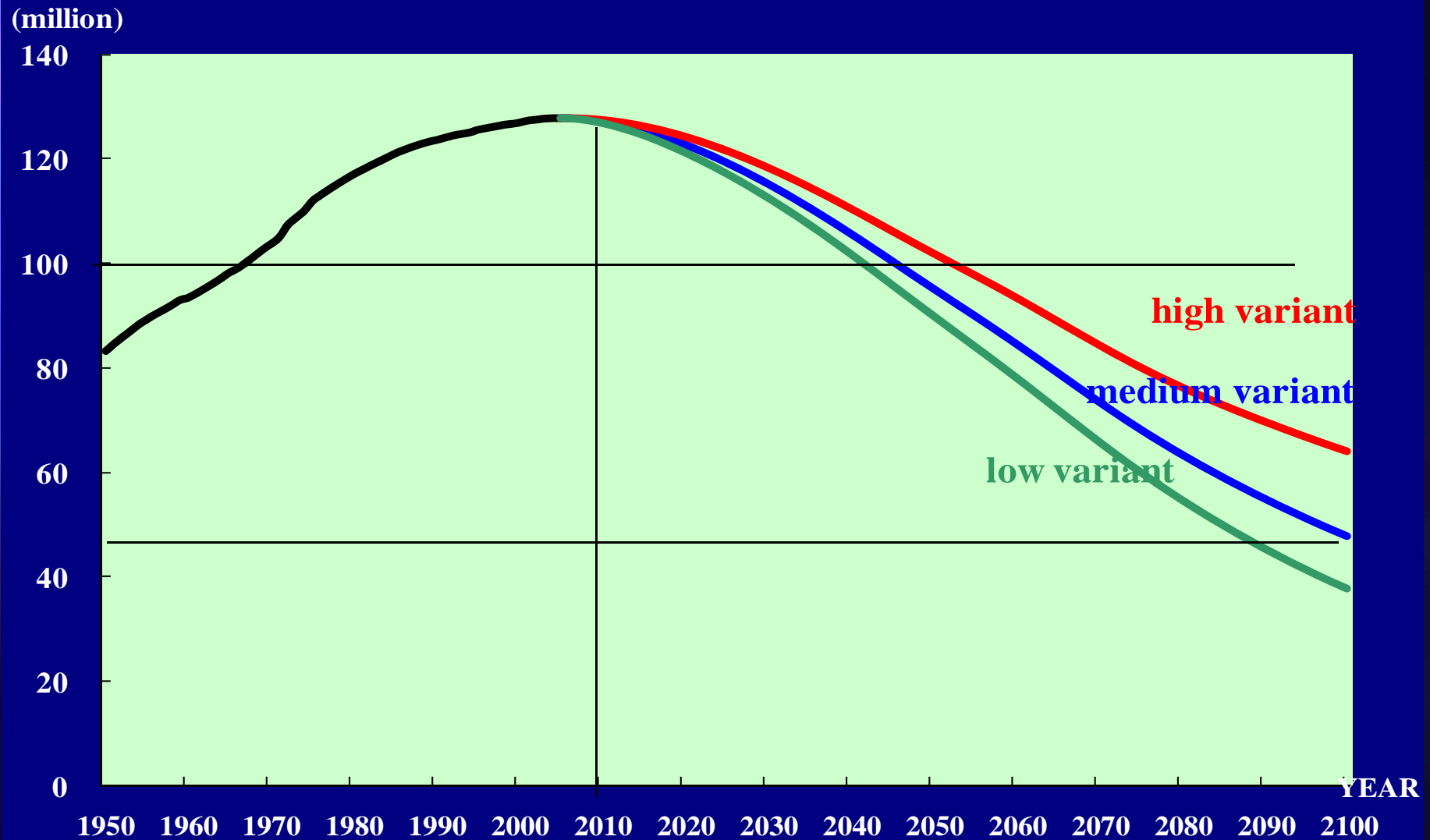
- **TFR**
- **Total No. of Populations**
- **Proportion of 65+**

# Trends in the Total Fertility Rate of Japan

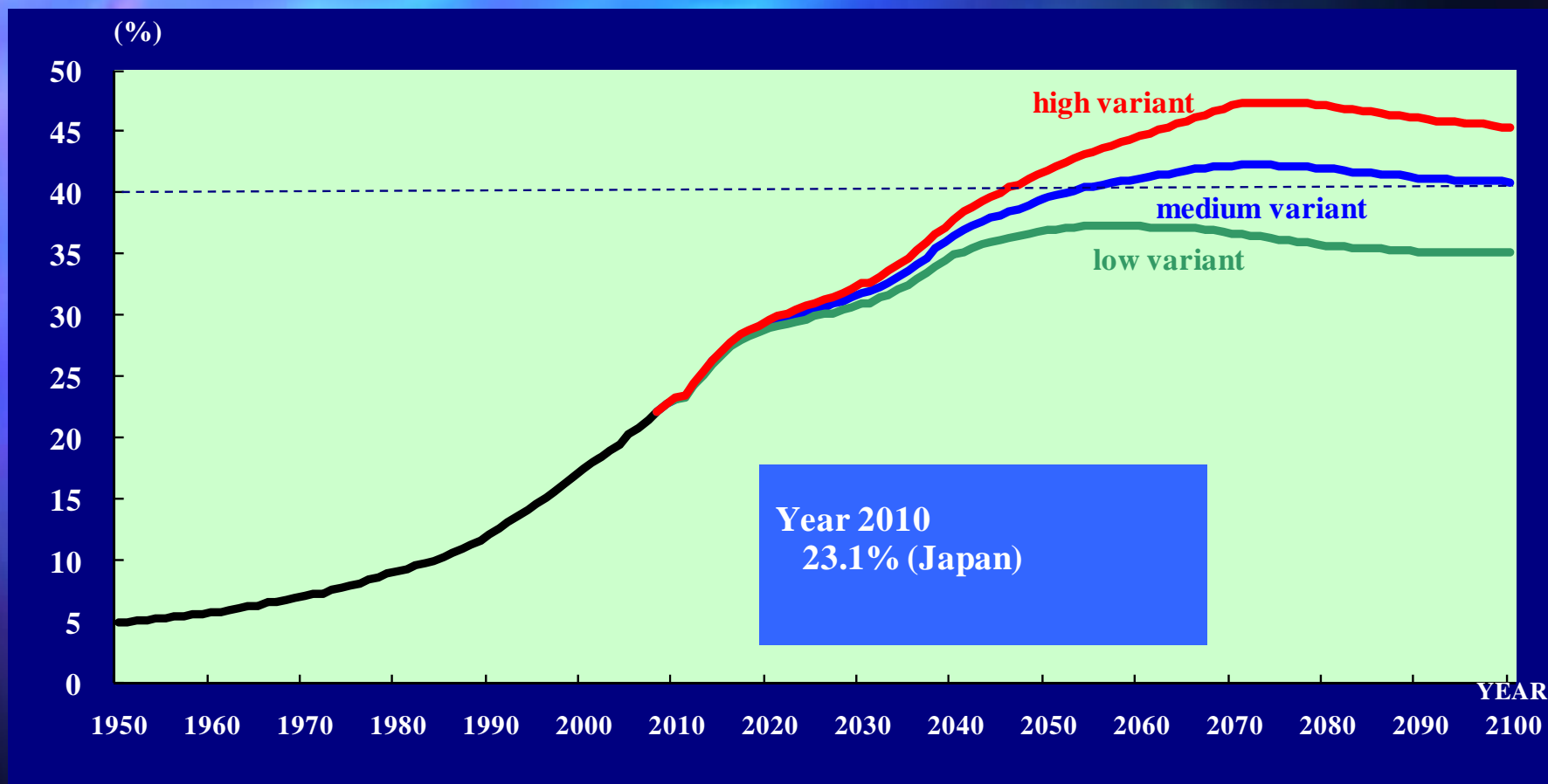




# Actual and Projected Population of Japan



# Proportion of the Elderly (+65) in Japan



# Financial Sustainability

- **The 2004 Reform**
- **still questionable**
- **Indexation to longevity, i.e., increasing NPA is required in the future**

# Coverage Issues in SS Pensions: Drop-out in 2009

- (1) No registration as the insured: 180,000 persons**
- (2) Contributions Totally Exempted: 5.35 million persons**
- (3) Contributions Delinquent: 5.66 million persons**
- (2) + (3) combined: 11.0 million persons (16.0% of all the insured)**

# Social Adequacy Issues

- **Non-eligible persons among the elderly (+65)**

420,000 persons in January 2007 (**1.4%**)

- **Monthly pension benefits: less than JPY30,000**

1.64 million in March 2010 (**5.6%**)

**(80% of them were female)**

- **Recipients of Means-tested public assistance among the elderly**

688,000 persons (**2.4%** in 2009)

**→Increasing demand for min. guaranteed pensions**

## Growing Number in Atypical Employees from 2002 to 2010

- Males: 4.3 mil. (15%) → 5.4 mil. (19%)
- Females: 10.2 mil. (49%) → 12.2 mil. (54%)

In Total,

14.5 mil. (29%) → 17.6 mil. (34%)

# Proportion of Atypical Employees in Their Early 20's: Males

Birth Year	Proportion, %
1983 – 1987	40.5
1978 – 1982	36.8
1973 – 1977	22.8
1968 – 1972	17.6
1963 – 1967	14.8
1958 – 1962	11.2

# KNH Coverage of Atypical Employees

**Part-time Workers: 35%**

**Temporal Workers: 23%**

**Dispatched Workers: 67%**

**Contract Workers: 72%**

**→In Total: 47% in 2003**



# **“Bad Start, Bad Finish” problem**

**Many younger people in Japan are currently “atypical” workers and their working status is quite unstable. The majority of them are not likely to step up to “typical” ones. They are not assured to enjoy adequate and stable income during their working age, and consequently their pension benefits will be less than the adequate level. Higher employability with stable income is badly missing for them.**

# Encouraging Later Retirement (1)

- **LFPR of male workers in their 60s in 2010**

<b>60-64</b>	<b>70.6%</b>
--------------	--------------

<b>65-69</b>	<b>46.4%</b>
--------------	--------------

**Relatively high in the world**

**Q: Do the SS pension benefits discourage labor supply of the elderly in Japan?**

# Encouraging Later Retirement (2)

- The Earnings Test (ET) applies to “**typical**” employees. Marginal tax rate for personal income is 50% (and 100%).
    - Theoretically, ET discourages their labor supply
- Remark:** ET does not apply to employment with less than **30 hours** per week. This gives a great incentive to limit their working hours less than 30, inducing a big change in working hours from age 60

## Encouraging Later Retirement (3)

**On the other hand, pension benefits are virtually equivalent to “wage subsidies” for elderly employees, thereby encouraging labor demand for persons in their 60s.**

**→ Two factors stated above operate in different directions. Further empirical work is required to verify the net effect.**

# Pensions and Female Employment in JPN (1)

## “Category 3” enrollees in SS Pension Program

Typical examples:

**Full-time homemakers**

**Dependent spouses, working part-time with  
working hours of less than 30 per week and  
with annual pay of less than JPY1.3 million**

**→entitled to receive basic flat-rate pension benefits  
without personally paying any pension  
contributions**

## Pensions and Female Employment in JPN (2)

**This provision gives a strong incentive to employers to limit working hours of their female employees to less than 30 per week.**

← **The employers objective is to save the personnel cost which includes the employers' portion of SS contributions**

→ **Growing number of female part-time workers**

## **Pensions and Female Employment in JPN (3)**

**Reducing the upper limit of JPY1.3 mil. or 30 hours for the new requirement of KNH coverage**

**→ faces a strong resistance from employers' group**

**A possible outcome: lower wages for part-time workers, due to increased non-wage costs**



**Thank you very much**