

# **Current Situation of Defined Contribution Pension Plans in Japan 2001- 2007**

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## **Abstract**

Defined Contribution Pension Plans were newly introduced in October 2001 in Japan. It had been 5 years since enactment of the DC Pension Act last year, and The Ministry of Health, Labour and Welfare established the Corporate Pension Committee and started to review DC Pension Plans and to discuss how the DC plans should be reformed.

Nakada reported the situation of DC pension plans in Japan at the 13th EAAC Meeting in Bali, Indonesia (see Reference No.5). This paper is a follow up and discusses the current situation of DC pension plans in Japan after Bali Meeting. Some issues suggested in the Committee are also discussed.

**Keywords: Defined Contribution Pension Plans, The Corporate Pension Committee, Matching Contribution, Investment Education**

## **1. Introduction**

Five years have passed since Defined Contribution Pension Plans were introduced in Japan in 2001. Both the number of DC plans and their participants have increased step by step (see figure 1) reaching 2,300 plans with more than 2 million participants at present. Some people may say that DC pension plans have succeeded in Japan and others not, but it is at least clear that current DC plans should be reformed to make them more convenient and useful to Japanese people.

This year is the time to review DC Pension Plans, because Defined Contribution Pension Plans Act prescribed in the supplementary that government should review it five years later after its enactment in 2001 if necessary. Thus, the Corporate Pension Committee (the “Committee” hereafter) was set up by The Ministry of Health, Labour and Welfare to evaluate the current situation and discuss how DC plans should be reformed to make them more useful in Japan.<sup>1</sup> The report is scheduled to be published by the Committee this summer<sup>2</sup>.

This paper reports the current situation of DC plans in Japan, discusses why DC plans need to be reformed and what kinds of reform options were discussed in the Committee. This paper will also discuss those options and suggest some other opinions.

\* The outline of DC pension plans in Japan is described at the end of the paper (see Appendix).

## **2. Current situations of DC Pension Plans**

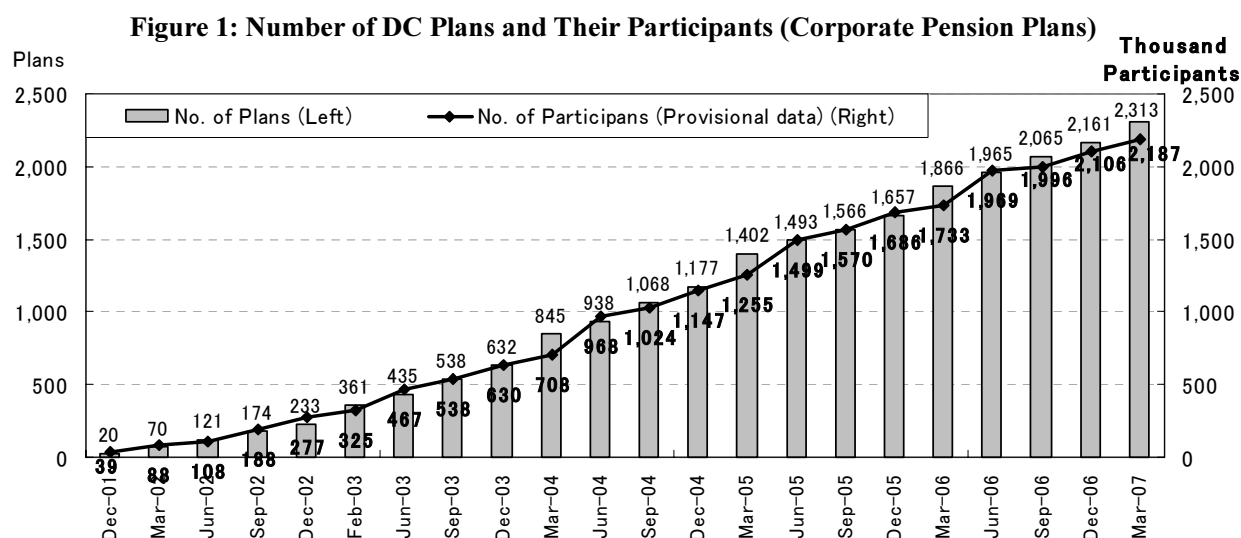
### **2.1 Plans and Participants**

Figure 1 shows the trend of the number of DC corporate pension plans and their participants. Both the number of DC plans and their participants have been gradually increasing; the number of DC plans reached more than 2,000 plans in September 2006 and the number of participants reached more than two million in December 2006. As of March 2007, they reached 2,313 plans with over 2,187,000 participants respectively.

Table 1 shows the number of corporations with DC plans as of May 31, 2007. More than 80% are those with fewer than 300 employees. We could say that DC plans have mainly been introduced among small and medium-sized corporations. This result suggests that the one of purposes of newly introduced DC plans, which is the expansion of corporate pension plans to medium and small-sized corporations, was achieved.

Table 2 shows situation of other corporate pension plans provided in addition to DC plans. There are significant trends that large corporations are likely to provide the combinations of DB and DC plans, and small and medium-sized enterprises are likely to provide DC plans only. 64% of

corporations do not provide other corporate pension plans, namely, more than 50% corporations with fewer than 300 employees provide DC plans only. On the other hand, 47% corporations with more than 1,000 employees provide both the DB and DC plans.



Note: No. of participants in December 2001 indicates that in February 2002.  
Source: Ministry of Health, Labour and Welfare

**Table 1: Number of Corporations with DC Plans (As of May 31, 2007)**

Number of Employees	Number of Corporations (%)
0-99	5,089 (57.4%)
100-299	2,024 (22.8%)
300-999	1,104 (12.5%)
1,000-	645 (7.3%)

Source: Ministry of Health, Labour and Welfare

**Table 2: Other Corporate Pension Plans Provided in Addition to DC Plans  
(As of May 31, 2007)**

	Corp. with Less Than 99 Employees	Corp. with 100-299 Employees	Corp. with 300-999 Employees	Corp. with Over 1,000 Employees	Total
EPF	682	433	170	60	1,345
DB	418	312	277	303	1,310
TQPP	129	92	90	47	358
MAA for Individual School Teachers	2	1	2	0	5
EPF/DB	10	13	23	17	63
EPF/TQPP	40	28	25	12	105
DB/TQPP	8	5	6	6	25
None	3,800	1,140	511	200	5,651
Total	5,089	2,024	1,104	645	8,862

Notes: EPF: Employee Pension Funds TQPP: Tax-Qualified Pension Plans  
MAA: Mutual Aid Association DB: Defined Benefit Corporate Pension Plans  
Source: Ministry of Health, Labour and Welfare

Table 3 shows situation of transferring assets from other retirement plans. 38% of corporations introduced DC pension plans newly. About 70% of corporations introduced DC plans with assets from TQPP and/or RS. TQPP will be expired by March 31 2012, and some TQPP have shifted to DC plans. Some DC plans transferred pension assets from more than two retirement plans.

**Table 3: Transfers of Assets from Other Retirement Plans (As of May 31, 2007)**

	Corp. with Less Than 99 Employees	Corp. with 100-299 Employees	Corp. with 300-999 Employees	Corp. with Over 1,000 Employees	Total
EPF	62	36	23	22	143
DB	46	16	19	15	96
TQPP	1,643	811	355	129	2,938
RS	505	234	196	184	1,119
EPF/DB	5	7	1	3	16
EPF/TQPP	5	3	4	4	16
DB/TQPP	7	5	2	3	17
EPF/RS	11	9	7	7	34
TQPP/RS	437	316	205	73	1,031
DB/RS	6	3	2	6	17
DB/TQPP/RS	5	2	1	3	11
EPF/TQPP/RS	9	5	3	5	21
None	2,348	578	286	191	3,403 (38.4%)
Total	5,089	2,024	1,104	645	8,862
TQPP (Re-tabulated)	2,106	1,141	570	217	4,034 (45.5%)
RS (Re-tabulated)	973	568	414	278	2,233 (25.2%)

Note: RS: Retirement Severance

Source: Ministry of Health, Labour and Welfare

Pension Fund Association published “First Report of the Fact-finding of Defined Contribution Pension Plans in FY 2006” (the “Fact-finding” hereafter) in March 2007. According to the results of the Fact-finding, 32.9% of corporations/contracts provided the choices for employees whether they can participate in DC plans or not, and participation rate was 76%.

## 2.2 Contribution

Average contribution amount per person per year to the DC plans is around 170 thousand yen per year (see table 4). There is no significant difference by a company scale. Among 2,357 contracts, 325 contracts provide maximum contribution amount which equals to 552,000 yen per year (46,000 yen per month), and 353 contracts provide maximum contribution amount which equals to 276,000 yen per year (23,000 yen per month) (see table 5).

According to the DC plan act, contribution must be paid by a fixed amount, a fixed rate, or a

combination of a fixed amount and a fixed rate. The Fact-finding shows that 14.6% of contracts provide a fixed amount method and 82.9% of contracts provide a fixed rate method. Only 2.5% of contracts provide a combination method. Moreover there were approximately 20% of corporations/contracts which included members who paid maximum contribution limit. 44.4% of corporations with other corporate pensions reach upper limit (23,000 yen per month) and 36.3% corporation without other corporate pension plans reach upper limit (46,000 yen per month). In 10.7% corporations/contracts (16.9% large corporations), members could change the rate of DC contribution.

**Table 4: Amount of Contribution per Year (Yen, As of May 31, 2007)**

	Contracts with Less Than 300 Participants	Contracts with More Than 300 Participants	Total
Average	170,100	172,280	171,190
Average of max	266,400	289,480	277,960
Average of minimum	73,810	54,420	64,100
Maximum	552,000	522,000	552,000
Minimum	980	720	720

Note: Excluding exceptional cases.

Source: Ministry of Health, Labour and Welfare

**Table 5: Number of Contracts Which Provide Maximum Contribution Amounts  
(Number, As of May 31, 2007)**

Maximum amount	Contracts with Less Than 300 Participants	Contracts with More Than 300 Participants	Total
552,000 yen	168	157	325
276,000 yen	115	238	353
Total	283	395	678

Source: Ministry of Health, Labour and Welfare

### 2.3 Investments

Table 6 shows that the numbers of investment vehicles provided are in range 3-45 and 14 on average. Table 7 shows that, of 14 vehicles provided on average, 10 vehicles provide variable securities and 2 are deposit and life/non-life insurance.

**Table 6: Investment Vehicles Provided (Number, As of May 31, 2007)**

	Contracts with Less Than 300 Participants	Contracts with More Than 300 Participants	Total
Average	13	16	14
Maximum	42	45	45
Minimum	3	3	3

Source: Ministry of Health, Labour and Welfare

**Table 7: Investment Vehicles Provided (Average, As of May 31, 2007)**

	Contracts with Less Than 300 Participants	Contracts with More Than 300 Participants	Total
Deposit	1.3	2.1	1.7
Money Trust	0.4	0.4	0.4
Valuable Securities	9.6	11.1	10.3
Life/Non-Life Insurance	1.8	2.2	2.0

Note: Valuable securities include securities investing mutual funds other than money trust.

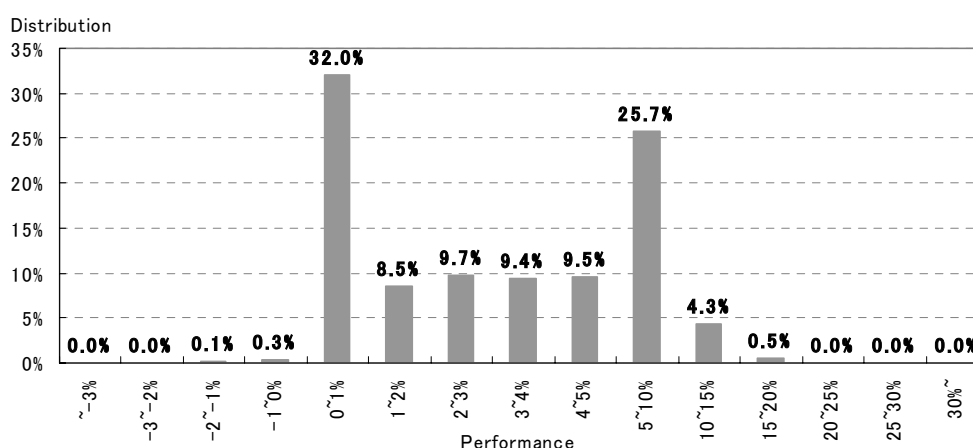
Source: Ministry of Health, Labour and Welfare

According to the Fact-finding, average number of investment products provided in DC plans was 14.76. The percentages of risk assets invested were 46.07% of total contribution and 43.02% of total asset.

## 2.4 Expected interest rate

When the corporation which had provided some retirement benefit systems or corporate pension plans in the past introduces a DC pension plan, an employer usually shows the rate of investment return as expected interest rate to maintain benefit level. According to the Fact-finding, expected interest rate was 2.26% on average. This means that participants who invest to guaranteed principle investment products (deposit, life insurance, etc.) will not get the benefit level as equal to that of previous retirement plans. However, 32% of DC plan participants seemed to invest to guaranteed principle investment products only (see figure 2).

**Figure 2: Distribution of Individual Investment Performance in DC Plans (As of March 2007)**



Note: The asset allocation based total asset amounts of the data is as follows;  
 Guaranteed principle investment products including short assets 44.7%,  
 Domestic stocks 30.8%,  
 Domestic bonds 9.9%,  
 Foreign stocks 8.2%,  
 Foreign stocks 5.7%, and  
 Others 0.8%.

Source: Nikko Pension Consulting Co., Ltd.

## **2.5 DC Management**

According to the Fact-finding, standard investment educations were provided to all participants, during working hours, and one time only (in most cases, employees could get ongoing education if they wish). 33.5% of corporations/contracts provided ongoing investment education for DC plans participants.

## **3. Why DC plans need to be reformed?**

### **(1) Success or Failure?**

Some people say that DC plans have been successful in Japan because they reached 2 million participants and 2 trillion yen assets five years after the introduction of the plans, and are still increasing. But others say that DC plans have not been successful because they still have only 12% of participants and 3% of assets among all corporate pension plans in Japan. We think it is still too early to decide. But it would be clear that the number of DC plans and their participants have not increased sufficiently, and DC plans should be reformed to make the system more convenient and useful to Japanese people. To put it concretely, expanding eligibility of DC plans for the housewives, public officers and employees aged 60 years old and over, which are not permitted to participate under the current DC pension act, should become reform options. Increasing upper limit of contribution amount is also necessary.

### **(2) Investment behavior**

Investment behavior among DC plan participants is polarized. While many DC participants invest in guaranteed principle investment products only, some DC participants invest mutual funds and get returns around 5-10 percent<sup>3</sup>. The former get a return less than the needed expected return of 2.26% because yields are very low currently in Japan. The former participants may not be familiar with investments. Moreover the fact that only guaranteed principle investment products are provided as default fund options accelerates such investment behavior. It is necessary for DC participants to stimulate pension investment by financial products such as mutual funds. In addition, mutual fund products should be added as new default fund option.

### **(3) Investment education/Ongoing investment education**

Only about 30% of DC plans are providing ongoing investment education to the participants. Ongoing investment education is very important to renew their portfolio of DC pension assets in the future. For example, participants may continue investing in the financial vehicles they first chose, often guaranteed principle investment products and may never have the chance to take ongoing investment education as active employees. How to provide ongoing investment education would be a big issue to be solved.

If many participants are likely to keep their investment portfolio after they decide at the first stage, subsequent investment education after they entered the DC plan is very important. For example, editing detailed standard guideline of investment education may be useful.

#### **4. The measures to solve current DC plans' problems**

##### **4.1 DC pension plans' reform**

DC pension plans were revised in 2004 and in 2007.

###### **(1) Pension Reform Act in 2004**

To enrich corporate pension plans including DC plans, following reforms were included in Pension Reform Act in 2004.

###### **a) Raising maximum contribution amount (enforced in October 2004)**

In the process of the review of the level of public pension benefits in pension reform in 2004, the maximum contribution amount was increased to supplement public pensions as shown in Table 8.

**Table 8: Raising maximum contribution amount in 2004 (per month)**

(Corporate type)

Without other corporate pensions: 36,000 yen → 46,000 yen

With other corporate pensions: 18,000 yen → 23,000 yen

(Individual type)

Without any corporate pension: 15,000 yen → 18,000 yen

Self employed individuals: 68,000 yen → 68,000 yen

Source: Ministry of Health, Labour and Welfare

###### **b) Easing of requirements of early withdrawal (enforced in October 2005)**

This reform eased the requirements for early withdrawal because the withdrawal fee can reduce or extinguish the asset if it is small. Withdrawal conditions were eased to include DC plan participants who had pension assets amounts less than 500 thousand yen in individual pensions and had pension assets less than 15 thousand yen in corporate pensions (see table 9).

**Table 9: Easing or requirements for early withdrawal**

	Existing requirements	Revised
Withdrawal after moving from corporate type pension to individual type pension	Those who are not able to pay contributions because of the system of the individual type (No. 3 insured persons, etc.) <ul style="list-style-type: none"> <li>• Enrollment period of less than 3 years</li> </ul>	Those who are not able to pay contributions because of the system of the individual type (No. 3 insured persons, etc.) <ul style="list-style-type: none"> <li>• Enrollment period of less than 3 years</li> </ul> or <ul style="list-style-type: none"> <li>• Asset amounts less than 500 thousand yen</li> </ul>
Withdrawal from corporate type pension	_____	Asset amounts less than 15 thousand yen

Source: Ministry of Health, Labour and Welfare

**(2) Unification of Employees' Pension Plans Bill in 2007**

Unification of Employees' Pension Plans Bill is continuously discussed at the Diet. This bill includes the following DC pension plan reforms;

**a) Tax system reform (enforced in April 2009)**

**(i) To increase age when participants lose their qualification of DC pension plans**

The people aged 60 years old and over cannot participate in the old DC Plans Act. This reform permit those participants continue to contribute to their DC plans when corporations decide the age between 60 to 65 years old.

**(ii) Modification of exiting from individual type pensions**

Participants of individual type pension who are investment instructor without contribution for two years after transferring pension assets into individual type pensions and whose total assets amount are below 250 thousand yen, can leave individual-type DC plans.

**b) Others (enforced in April 2008)**

**(i) Relaxation of a procedure to exclude of investment products**

Under the old act, individual agreements were necessary in case of excluding investment products. This reform enables the exclusion of investment products by labour-management agreements etc.

**(ii) Withdrawal plan assets in case participants retire during early 60s**

Under the old act, participants can withdraw their plan assets when they reach the age between 60 to 65 years old or retire during 50s. Under the new bill, participants will also be able to withdraw plan assets when they retire between 60 to 65 years old.

## **4.2 Discussions at the Corporate Pension Committee about DC Pension Plans reform in 2006-2007**

What kinds of reform options are discussed in the Committee? According to the Corporate Pension Committee (the “Committee”) held on June 26, following issues will be mentioned in the report which the Committee will publish this summer.

### **(1) Eligibility of DC pension plans**

#### **a) Housewives (No. 3 insured persons in National Pension)**

As mentioned above, housewives (no. 3 insured persons in National Pension) cannot participate in the individual type DC pensions under the current act. Whether the DC plans should cover the housewives or not have been discussed for a long time since DC pension act was enacted.

It will be the one of options that the logic of the pension division which was introduced in a public pension policy is applied to total contribution amounts of DC plans for couples. In other words, it is rational to divide the contribution, which is paid by a husband, into halve, and require a housewife without income to pay contribution.

#### **b) Public officers**

Public officers are also out of the target of the DC pension plans under the current act. Whether public officers will be covered in the DC pension plans should affect a pension policy of the third tier part of public officers' pensions<sup>4</sup>. Third tier pension of public officers is now under discussion in the National Personnel Authority, so that this issue should be discussed after its policy is finalized.

#### **c) Employees who work for corporations with other corporate pension plans**

Under the current DC pension plans act, corporations with other corporate pension plans can also introduce corporate type DC pensions. However, whether such corporations actually provide the DC pensions or not, depends on each corporation's decision, and some corporations do not provide DC pensions. Therefore, if corporations do not provide DC plans in addition to DB-type corporate pensions, employees have no chance to create DC pension assets.

One of the purposes of the DC pension act is to ensure the fairness between persons who can participate in corporate pension plans and persons who cannot. If the purpose should be fulfilled completely, eligibility of private type DC pensions should be expanded to employees whose corporation provides DB-type corporate pension plans and do not provides corporate type DC pensions.

## **(2) Contribution**

### **a) Maximum contribution amount**

Maximum contribution amounts are set according to a desirable benefit level of EPF, which is 60% of a salary just before retirement. This benefit level of EPF needs to revise in accordance with the benefit level of public pension systems. Moreover, whether this upper limit should be removed or not is one of the discussion points. Abolishment of upper limit should not be treated as only a favorable treatment for high income earners.

In case of discussing the issue, the fact should be paid attention that contribution amounts for younger employees etc do not reach the upper limit. Because most DC pension plans calculate contribution amounts by a fixed rate.

### **b) Individual contribution to corporate type pension (matching contribution)**

Introducing individual contribution (so-called 'matching contribution') in corporate type pensions is one of the issues which have been discussed. Moreover, whether the maximum contribution amounts including contribution paid by individual employees are limited within 60% of a final salary or not should be discussed.

Withdrawing the assets accumulated by employees' contribution before 60 years old should also be prohibited in principle, because DC pension plans are different from savings.

Moreover, individual contribution amounts should reduce taxable income, because contributions by employers in corporate type pensions and by participants in individual type pensions reduce taxable income under the current DC pension plans act.

Introduction of matching contribution systems was also proposed by CPEF committee members, and government agreed to discuss this reform option in 'the Basic Policy 2007' (See 4.3).

## **(3) Others**

### **a) Investment education**

To fulfill investment education in DC plans, the Committee suggests discussing clarifying details of ongoing investment education, making guidelines of investment education, etc. According to the discussion of the Committee, introducing a standard model of investment advice may be difficult.

### **b) Exclusion of investment products**

As mentioned above, it is difficult to exclude investment products substantially<sup>5</sup>. Under the old act,

individual agreements were necessary in case of excluding investment products. From April 2008, the exclusion of investment products by labour-management agreements etc. will be also enabled. The Committee will propose that the exclusion of investment products should be laid down in DC plans' rules so as to do it more easily.

**c) Default fund**

Employers only offer guaranteed principle investment products as default funds. If the way of choice is rational, employers should not have a responsibility for the preservation of principle. From this point of the view, mutual funds should become one of the options of default funds. The Committee will propose introducing a default choice of mutual funds.

**d) Exiting system**

When participants whose pension assets are transferred from company type pensions to individual type pensions automatically (because they do not transfer their assets by themselves) exit DC plans and get their vesting, will be one of the point at issue.

**e) Promoting employment for old-age people**

In Japan the retirement age has been 60 years old. From April 2007 'the Revised Stabilizing Employment for Old Age People Act' enacted, and many employees aged 60 years old and over will continue to work. According to changing of employment for people aged 60 years old and over, it is necessary for those to become able to contribute DC plans.

**4.3 Discussion at the Council on Economic and Fiscal Policy (CEFP)**

CEFP proposed DC Pension Plans reforms in 'the Basic Policies 2007' (the "Policies" hereafter) so as to enforce investment among households. According to the Policies, financial assets in Japanese households reached 1,500 trillion yen and most of them are cash or deposit. It is necessary for Japanese economy to accelerate security investment so as to enhance economic growth. Especially it is an urgent problem to supply investment money to venture corporations. CEFP thinks DC pension plans are one of good resource to solve above problems.

In the U.S. DC pension plans such as 401(k) and IRA have played an important role leading employees to invest in securities. Japanese DC plans are limited such that contributions by employees are not permitted in corporate type DC pensions. The Policies propose that government should discuss following DC pension plans' reform to stimulate security investment through DC plans (so-called 'from deposit to investment');

- (1) To remove the ban on ‘matching contributions’ permitting both employers and employees to contribute to DC plans, and
- (2) To modify eligibility of individual type pensions for employees.

## **5. Concluding remarks**

This paper has discussed current situation of DC pension plans in Japan and what kinds of reform options are discussed in the Committee established in the Ministry of Health, Labour and Welfare.

The Committee will publish their report which shows the direction to support expansion of eligibility, promoting investment into financial products other than deposit, and promoting investment education.

### **(1) Expansion of eligibility**

The number of DC plans and their participants are modestly increasing. Expanding the coverage of DC plans would be very important to boost members. Expanding coverage in DC plans should be one of indispensable issues to discuss in their reform.

On the other hand there is an opinion that coverage should be cautiously expanded. One reason is that tax revenue could decrease as DC plans spread. We think tax favorable treatment is an important incentive to encourage retirement income in DC plans. Therefore we think that tax exemption at the time of contribution should be provided continuously, and taxation at the time of receiving pension benefits would be changed if government would like to maintain tax revenue from DC plans.

### **(2) Promoting investment into financial products other than deposit**

As mentioned above many Japanese people are likely to avoid investing into non-guaranteed financial products such as mutual funds. Therefore those who invest only in guaranteed principle investment products cannot earn enough investment return. In Japanese DC pension plans, stimulating people to invest into financial products other than deposit vehicles is very important. Fortunately Japanese stock market has recovered and it is a good time to promote investment to the people.

### **(3) Promoting investment education**

Ongoing investment education is particularly necessary to Japanese DC plans participants. Now only 30% of corporations provide such education. Therefore, the number of corporations which provide education should be raised. Moreover government should check whether education is effective or not.

Investment education for beneficiaries will be also necessary in the near future. The number of beneficiaries is small and the problem of annuitization has not been discussed so far. Investment education on how to liquidate DC assets and use them will be necessary. Moreover the way of introducing investment advisory services to DC plans' participants should be discussed in the future.

In Japan income replacement rate of public pension systems will gradually decrease from 59 percent to 50%. On the other hand life expectancy at the retirement will increase, so that their own money will be necessary to spend happy retirement lives. Japanese people must prepare more money for their retirement by combination of public and private pension plans in the future. In this regard, DC pension plans play a very important role in creating retirement income. We hope DC pension plans become more useful tools for preparing retirement income to Japanese people.

## **6. Acknowledgement**

Authors gratefully acknowledge Mr Leslie John Lohmann, Lohmann International Associates for his useful comments.

## **Appendix: Outline of DC Pension Plans in Japan**

### **A.1 Purposes and Features of DC Pension Plans**

Defined Contribution Pension Act was introduced in October 1, 2001. DC pension plans were introduced along with the Defined Benefit Corporate Pension Plans. The purposes of DC pension plans are providing a new option for retirement income more stable as well as corresponding changes of socio-economic situation such as lower fertility rate, population ageing, diversifying of life in old-age period and fluidity of employment.

Features of DC pension plans are as follows;

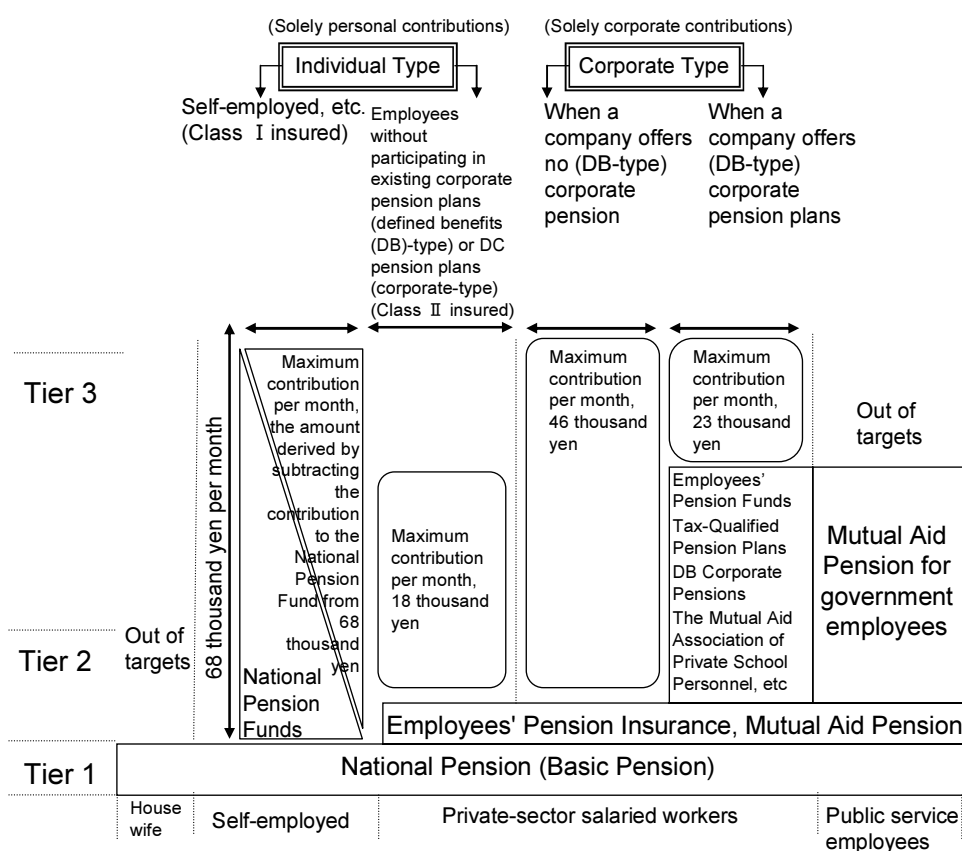
- (1) DC pension plans are easier to introduce for small and medium-sized enterprises compared to Defined Benefit type plans,
- (2) DC pension plans can easily correspond to portability, transferring pension assets in case of job change, because the contributions paid are clearly specified for each employee. For persons who cannot participate in the system such as No.3 insured persons, assets associated with the participants are transferred to the National Pension Fund Federation.

### **A.2 Eligibility and maximum contribution amounts**

Figure 3 shows the eligibility of DC pension plans and maximum contribution amounts. There are two types of DC plans, corporate type and individual type. Target of corporate type pensions is company employee. Maximum contribution amount is 46,000 yen per month in case an employer does not offer DB-type pension plans such as Employee's Pension Fund (EPF) or the Defined Benefit Corporate Pension, etc, and 23,000 yen per month in case he offers DB-type pension plans. On the other hand the targets of individual type pensions are self-employed persons and company employees without participating in existing corporate pension plans or corporate-type DC plans. The maximum contribution amounts are 68,000 yen per month and 18,000 yen per month respectively. When self-employed persons are participating in the National Pension Fund (NPF), the amount remains after deducting the contribution to the NPF. All of participants are required under 60 years old (However this requirement will be modified by Unification of Employees' Pensions Systems Bill in 2007 (see chapter 4.1)). Housewife (No.3 insured people in the National Pension) and public service employee are out of the target.

Maximum contribution amounts were to be raised by Pension Reform Act 2004. Maximum contribution amounts are set according to a desirable benefit level of EPF; total pension benefit (equals to husband's and wife's Basic Pension plus husband's Employee's Pension Insurance and EPF) is 60% of a salary just before retirement. When DC pension plan was introduced, this level was equal to 1.7 times of substitutional portion of EPF. After the pension reform in 2004, this level changed to 2.23 times of one<sup>6</sup>.

**Figure 3: Eligibility and Maximum Contribution Amounts of DC Pension Plans in Japan**



Source: Ministry of Health, Labour and Welfare

### A.3 Investment

Pension management institutions<sup>7</sup> must offer three or more financial products which includes at least one guaranteed principle investment products. Financial products include deposits, bonds, mutual funds, stocks, trusts and insurance products, etc. Pension management institutions also provide participants with opportunities to change financial products at least once every three months. Participants have to be fully provided the information on the investment products and choose among them by themselves.

### A.4 Benefits

DC pension plans provide old-age, disability and lump-sum death benefits. Participants can receive old age benefit and disability benefit either as pension or as a lump sum. Old-age benefit can be received from age 60 where ten or more years have passed since the initial contribution, including the period during which assets were only managed. For disability benefit and lump-sum death benefit, benefits are provided upon occurrence of major disability or death of the respective

participants.

Former participants who forfeit the entitlement of DC plans can receive a lump-sum benefit from individual type pension or corporate type pension when contribution period is three years or less, or the total assets amount is equal to or less than 500,000 yen, or the total assets amount is equal to or less than 15,000 yen respectively.

#### **A.5 Taxation**

Taxation system is ETT (Exempt-Tax-Tax) in a form and actually EET (Exempt-Exempt-Tax) or EEE (Exempt-Exempt-Exempt).

At the contribution stage, contribution fee is added to corporate losses. At the investment stage, 1.173% of special corporation taxes are levied on pension assets. However those taxes have been frozen up to fiscal 2007 and have never required since DC plans introduced. And at the old-age pension provision stage, a public pension deduction applies for pensions and retirement income deduction applies for lump-sum payments.

#### **A.6 Protection of Participants**

For the purpose of protecting participants, corporations, the National Pension Fund Federation, pension management institutions and asset management institutions must comply with laws and DC pension agreements and are regulated by law to bear the responsibility of executing pension services faithfully for participants.

#### **A.7 Portability**

Asset balance is recorded for each participant and can be transferred to other corporate-type DC pension plans when he or she moves to new corporation with DC plan. Pension asset is also transferred to the National Pension Fund Federation when he or she moves to the new corporation without DC plan.

#### **A.8 Investment Education**

Investment education is considered to be a legal duty of a corporation. However, the government ordinance required DC plans to decide contents and methods of investment education in advance in corporate pensions agreements. As a result investment education is obliged by government ordinance. That education does not include investment advice such that the Pension Protection Act in U.S. permit for 401(k) plans.

Investment education should be provided when participants enter DC plans (namely ‘investment education’) and after that (namely ‘ongoing investment education’). Information which should be provided for DC plans’ participants includes;

- (1) What is a DC plan?
- (2) Financial products and their characteristics, and
- (3) Basic knowledge of asset management.

## Reference

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- [5] Pension Fund Association (2006), *The Fact-finding of Defined Contribution Pension Plans* (in Japanese), October 2006 ([http://www.pfa.or.jp/top/toukei/pdf/dc\\_chosa.pdf](http://www.pfa.or.jp/top/toukei/pdf/dc_chosa.pdf)).
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<sup>1</sup> Defined Benefit Corporate Pension Plans are also discussed at the Committee.

<sup>2</sup> The report was published on July 10, 2007.

<sup>3</sup> Investment performance has been better since DC plans were introduced in 2001.

<sup>4</sup> According to the Unification of Employees’ Pension Plan Bill in 2007, second tier public pensions for employees and public officers will be combined so as to dissolve disparities between public and private sectors. The portion of third tier pensions for public officers corresponds to corporate pension plans for employees in private sectors. Now Japanese government discusses what third tier pension of public officers should be.

<sup>5</sup> According to Ministry of Health, Labour and Welfare, the number of exclusion of investments products is six by four contracts (as of March 2007). The reason of exclusion is advanced redemption for mutual funds.

<sup>6</sup> The calculation of maximum contribution amount is as follow:  
650,000 yen (standard salary for most employees in individual sectors) × 3.2% (the exemption premium rate) × 2.23 times = 46,000 yen.

<sup>7</sup> ‘General corporations, such as financial institutions, should be registered by the Minister of Health, Labour and Welfare and Commissioner of the Financial Services Agency, and present the individual financial products, provide information on the individual financial products, etc., coordinate participants’ investment orders, and maintain records regarding the asset-sharing of each participant, etc.’ (Source: Ministry of Health, Labour and Welfare (2005) “Chapter 9 Overview of the Corporate Pension”, pp.151).