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

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Purposes of This Paper

- Defined Contribution Pension Plans Act enacted in October 2001 in Japan
- DCPPA prescribed government should review it 5 years later after its enactment
- This year is the time to review DC plans



To explain current situation of DC plans and discussion of DC pension reform in Japan

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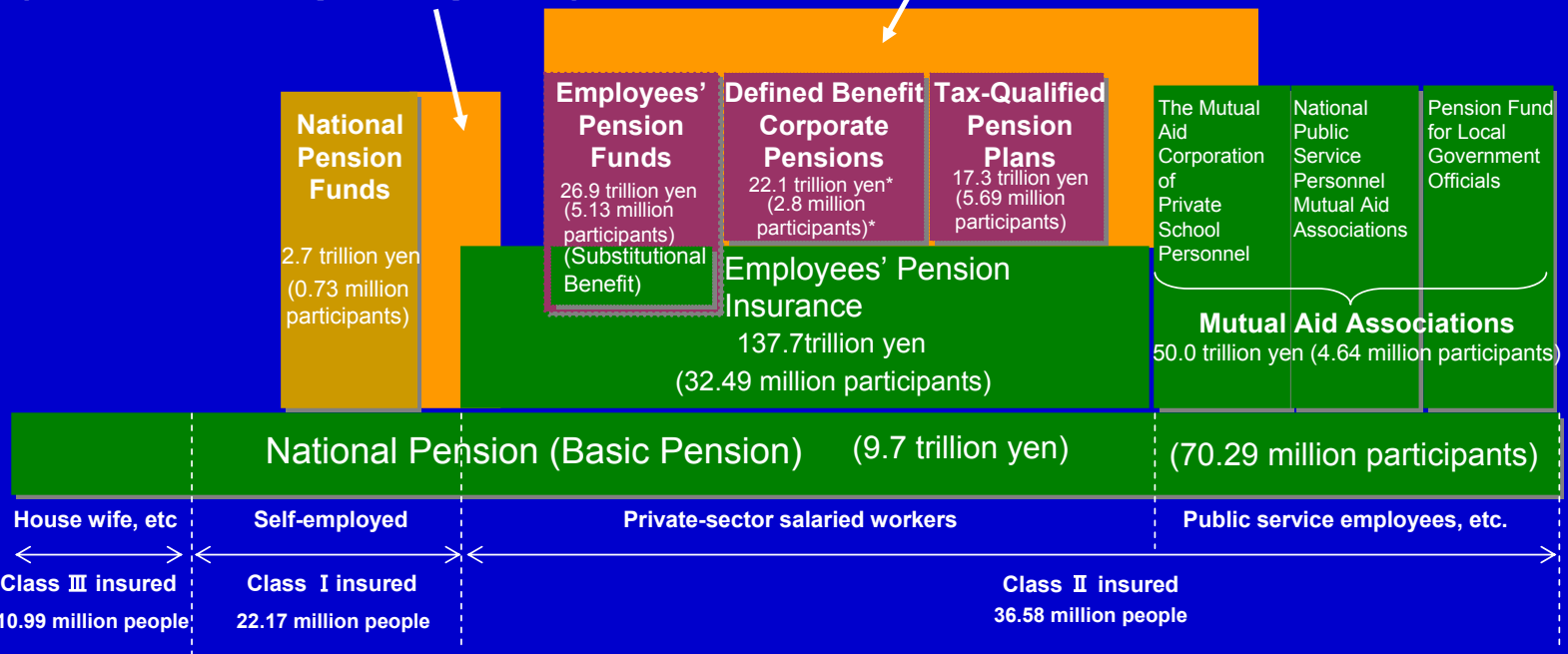
1. Outline of DC pension plans in Japan
2. Consequences of introducing DC plans
3. Why DC plans need to be reformed?
4. Measures to solve DC plans' problems
5. Concluding remarks

1. Outline of DC pension plans
in Japan

Structure of the Japanese Pension Schemes

Defined Contribution Pensions (Individual type)
(0.063 million participants)

Defined Contribution Pensions (Corporate type)
(1.733 million participants)

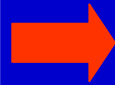


- Notes:
- The number of participants and reserves are as of the end of March, 2005. * is as of July, 2006.
 - Defined Contribution pensions took effect on October 1, 2001. Defined-Benefit Corporate Pensions took effect on April 1, 2002. Tax-Qualifies Pension Plans (17.3 trillion yen, 5.96 million participants) will change over to other Company Pension Plans etc till March, 2012.

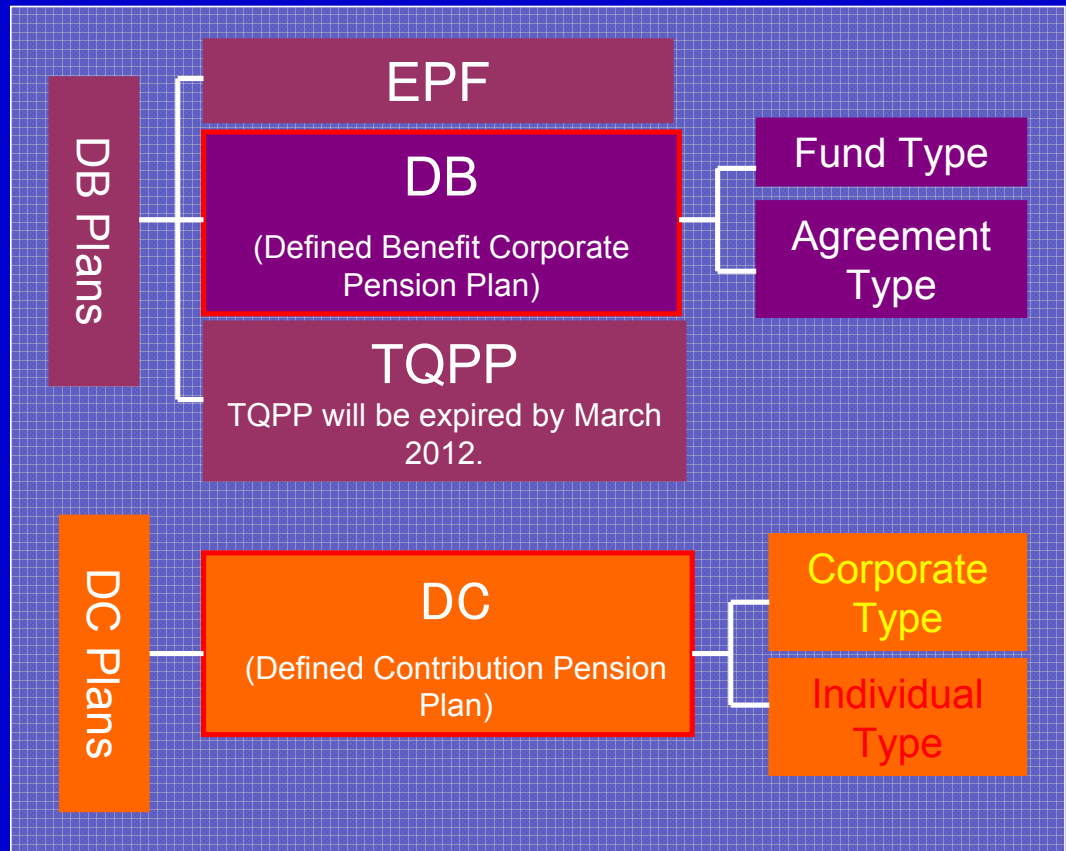
Source: Ministry of Health, Labour and Welfare. Pension Fund Association

Corporate Pension Systems Reform

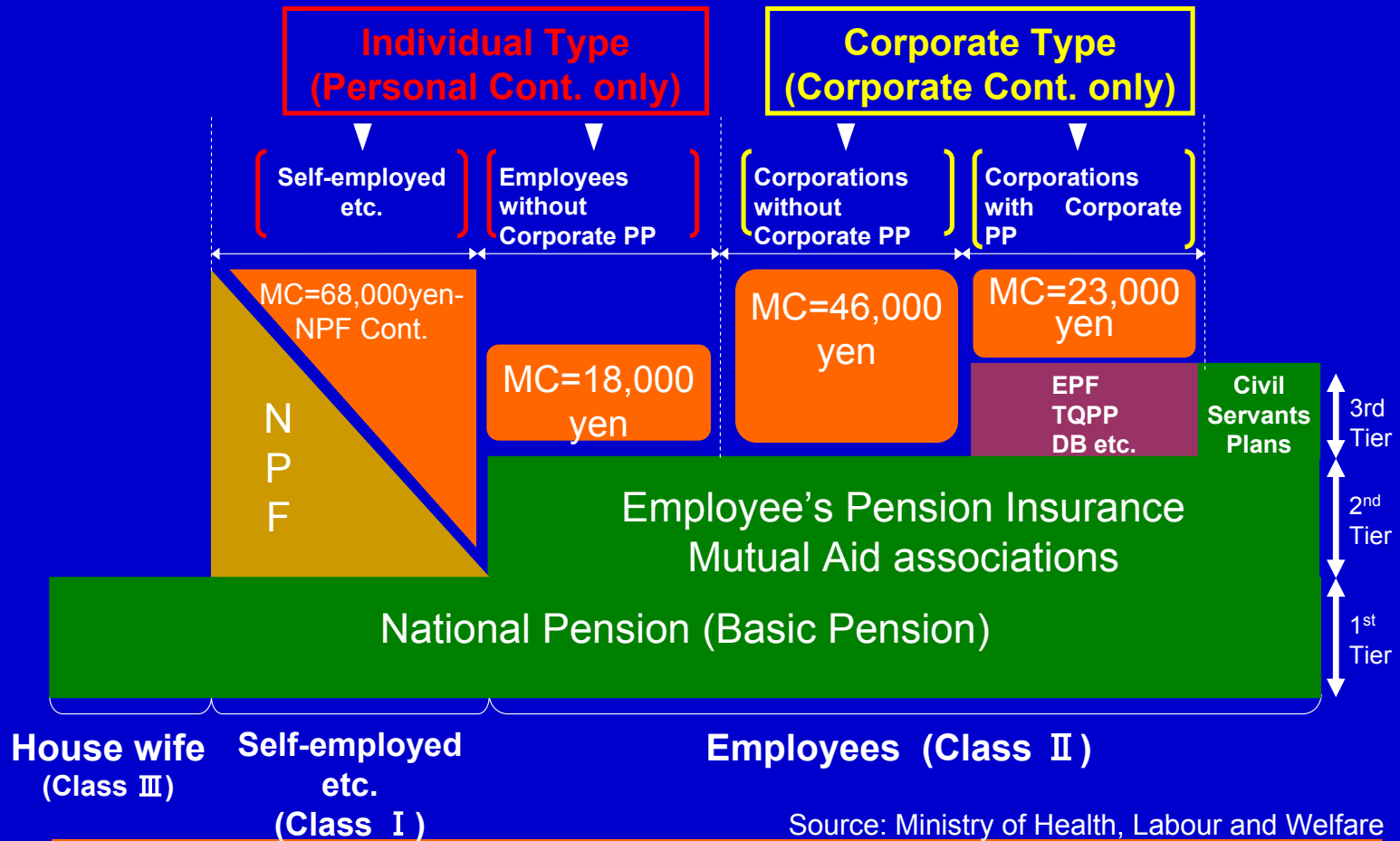
Before FY2000



After FY2001



Coverage of DC plans in Japan



Source: Ministry of Health, Labour and Welfare

Outline of DC plans in Japan (1)

- Introduced in October 2001
- Introduced into Corporate Pensions ,*Not* Social Security pensions
- Employer contribution only
- Corporate Type: Actually, Mandate
- Individual Type: Voluntary
- Out of Targets: Housewives & Public Servants

Outline of DC plans in Japan (2)

- Most participants are in corporate type
 - Corporate Type: 2,431 thousand people
 - Individual Type: 82 thousand people
- DB plans → DC plans
 - DB pension assets for both *past* and *future* service can transfer to DC plans
 - C.f. in UK, DC plans are introduced only for new participants or future service

Outline of DC plans in Japan (3)

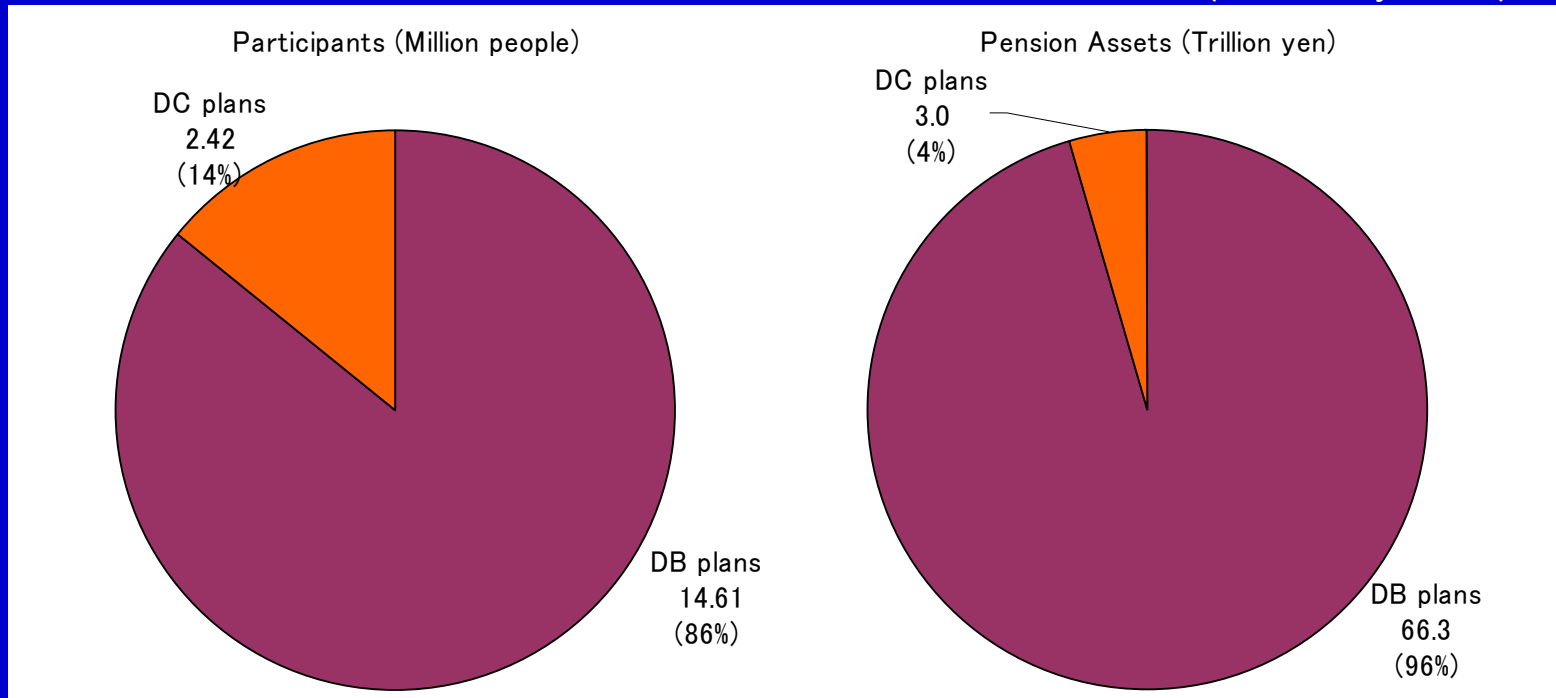
- Investment Vehicles:
 - 3+, including 1 guaranteed principal investment product
 - Default option: usually GPIIP
- Investment Education:
 - Obligated by government ordinance
 - Dose not include 'Investment Advice'
- Old-age benefits: Age 60+, pension or lump-sum
- Existing DC plans: limited

2. Consequences of introducing DC plans

DC plans vs. DB plans

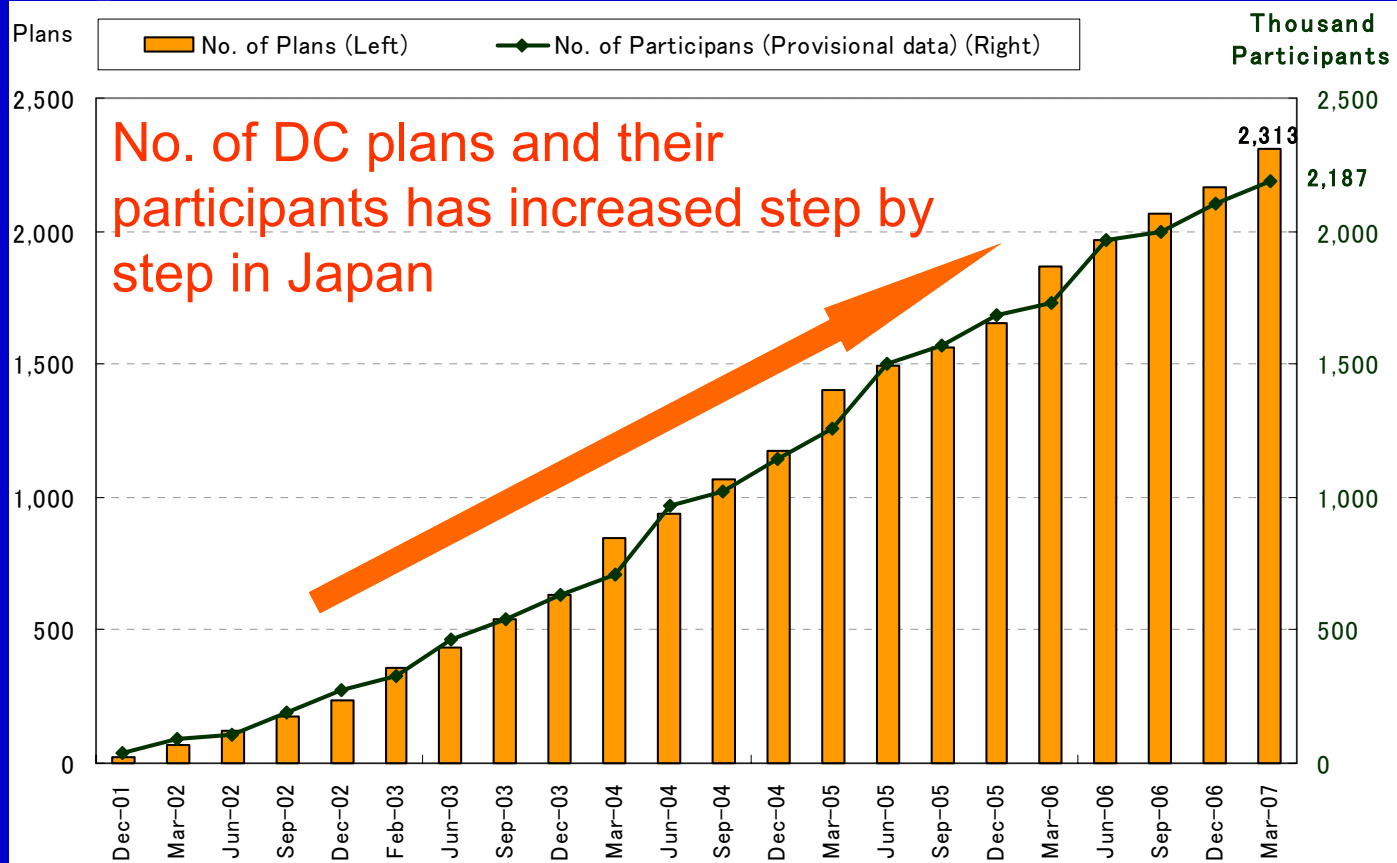
- Most corporate pension plans are still DB-type plans in Japan

(As of July 2007)



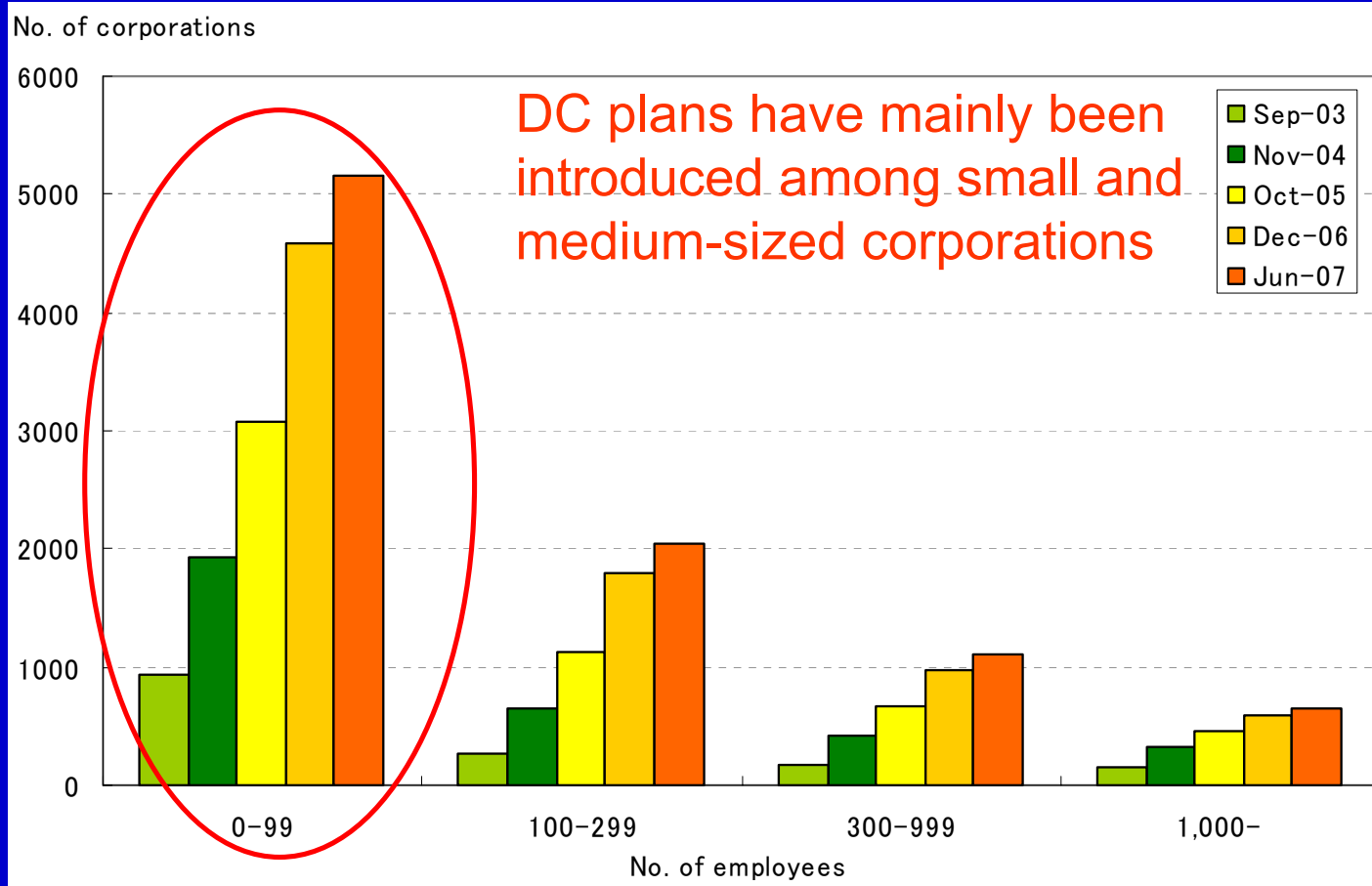
Source: Pension Fund Association

No. of DC Plans and Their Participants (Corporate Pension Plans)



Source: Ministry of Health, Labour and Welfare

Number of Corporations with DC Plans

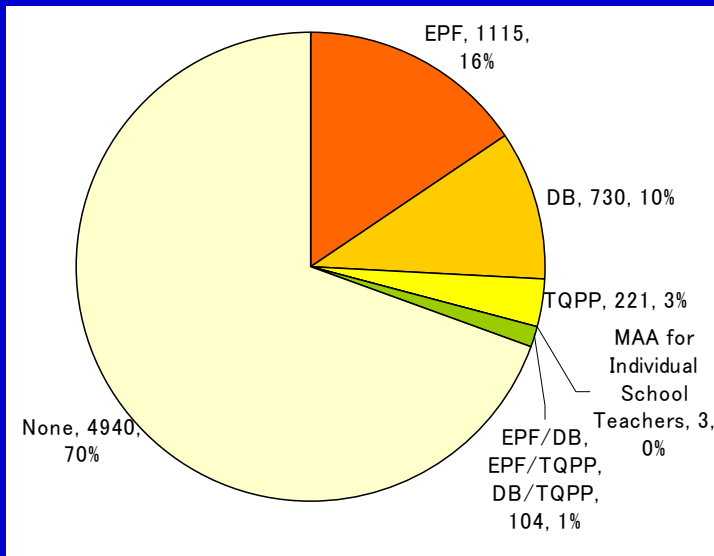


Source: Ministry of Health, Labour and Welfare

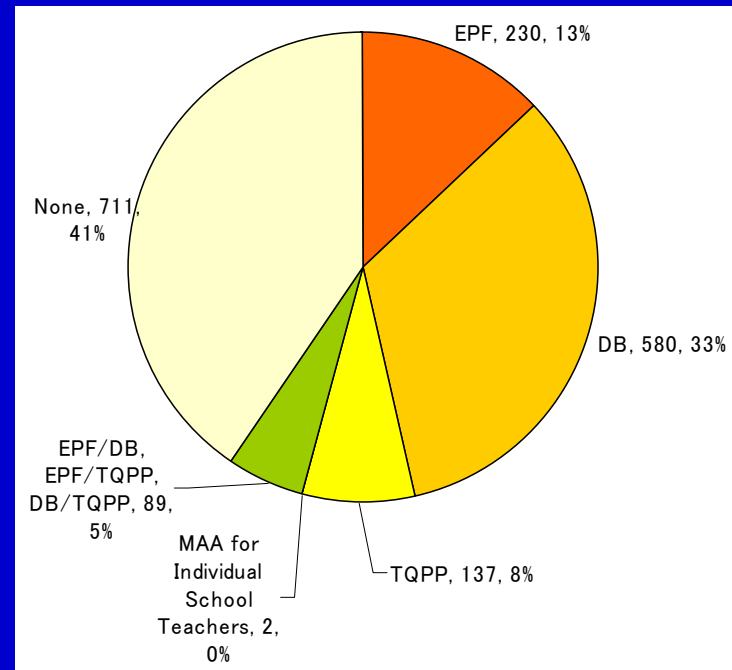
Other Corporate Pension Plans Provided in Addition to DC Plans

(As of May 31, 2007)

Corp. with Less Than 300
Employees



Corp. with More Than 300
Employees



Source: Ministry of Health, Labour and Welfare

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
Total	5,089	2,024	1,104	645	8,862
TQPP (Re-tabulated)	2,106	1,141	570	217	4,034
RS (Re-tabulated)	973	568	414	278	2,233

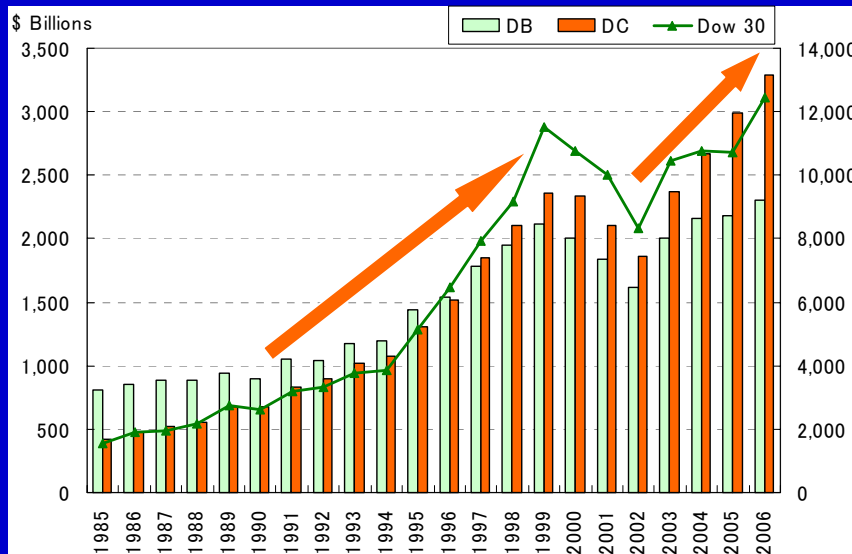
Upper Limit of DC Contribution Amount

- In 78.1% of corporations, no participants do not reach upper limit
- Especially young participants does not reach upper limits;
 - 82.9% of contracts calculate contribution by 'fixed rate method'

(CA=a fixed rate* participants' salary)

Comparison to US

- 1990's
 - Upswing of the US stock market
 - New industries adopted DC plans
- After 2002
 - After 'perfect storm'

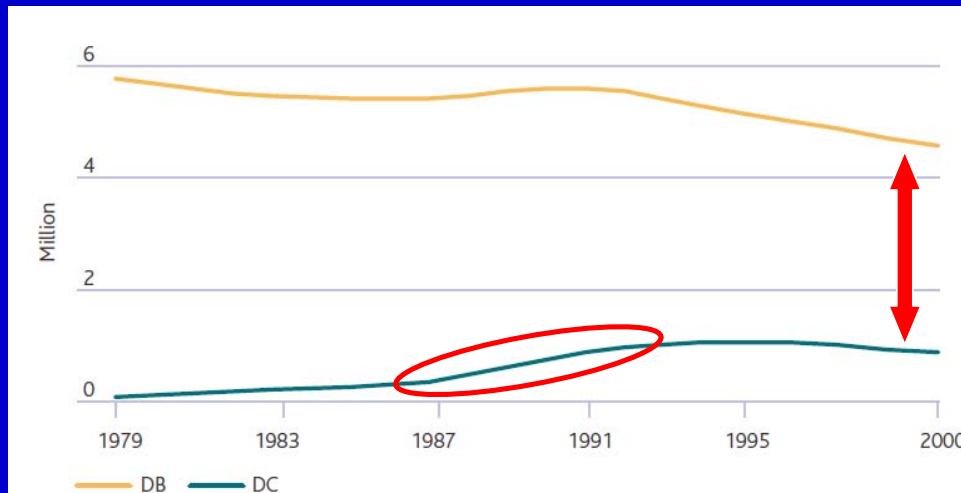


Pension Assets in US (in Billions dollar)

Source: Federal Reserve 'Flow of Funds
Accounts of the United State'

Comparison to UK

- In 1988
 - Contract-out system in DC plans was introduced
- Since around 2000
 - Sifting from DB to DC plans
 - Underfunding occurred in DB plans, and
 - Regulations of DB plans were restricted



Active Members of DB and DC plans in UK

Source: The Pensions Commission 'Pensions: Challenges and Choices' The First Report of the Pensions Commission

3. Why DC plans need to be reformed?

Why DC plans need to be reformed? (1)

- No. of DC plans and their participants have not increased sufficiently

→ DC plans should be reformed to make the system more convenient and useful

Why DC plans need to be reformed? (2)

- Investment behavior -Polarized
 - ❑ Invest in GPIP only, get returns less than 2.26% (needed expected return)
 - ❑ Invest in mutual funds, get returns 5-10 %
- Need to stimulate pension investment



Why DC plans need to be reformed? (3)

- Investment education /Ongoing investment education
 - Invest in GPIIP only at first, keep their investment portfolio
 - OIE is important to renew their portfolio
 - Only 30% of DC plans are providing OIE

→ Need to expand OIE

4. Measures to solve DC plans' problems

Pension Reform Act in 2004

- Raising maximum CA
- Easing of requirements of early withdrawal

Unification of Employees' Pension Plans Bill in 2007 (continuously discussed)

- Tax system reform
- Relaxation of excluding investment products
- Permit to withdraw plan assets in case participants retire during early 60s

Corporate Pension Committee (1)

- Ministry of Health, Labour and Welfare set the Committee to review DC plans
- The Committee submit report in July 2007
 - Expansion of eligibility
 - Promoting investment into financial products other than deposit
 - Promoting investment education

Corporate Pension Committee (2)

- Eligibility of DC pension plans
 - Housewives
 - Public officers
 - Employees with other corporate plans: **should permit to participate in individual type plans**

Corporate Pension Committee (3)

■ Contribution

- Maximum contribution amount: 60% of a salary just before retirement
 - Corporate type: **should be change in connection with public pension benefit level**
 - Individual type: **should consider CA of DB or corporate DC plans and individual contribution**
- Individual contribution to corporate type pension : **should be introduced**

Corporate Pension Committee (4)

- Investment education
- Exclusion of investment products
- Default fund
- Exiting system
- Promoting employment for old-age people

5. Concluding remarks

Current condition of DC plans in Japan

- DC plans was introduced in October 2001
- No. of DC plans and their participants are 2,313 plans and 2,187 thousand people
- DC plans mainly introduced in small & medium-sized corporations
- Young participants are not likely to reach upper limits of CA
- Investment behavior is polarized
- OIE is not sufficient

Pension Reform Options

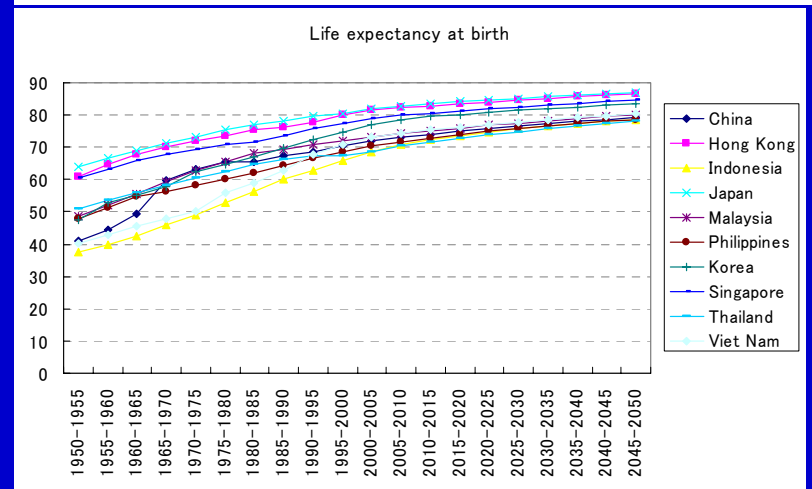
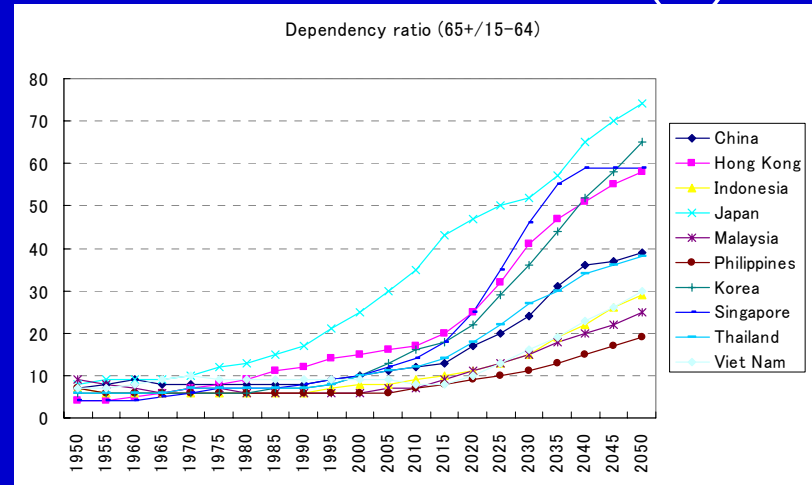
- The Committee proposed DC pension reform
 - To expand coverage of individual type for employees with other corporate plans
 - To discuss MCA
 - To permit Individual Contribution

etc.

Will DC plans expand in East Asia? (1)

- Population Aging in East Asia
 - Social security pension + preparing old-age income by oneself
→DC plan is one of the tools

Source: United Nations Population Division
'World Population Prospects: The 2006 Revision'



Will DC plans expand in East Asia? (2)

- Hong Kong, Korea, and Japan have DC plans
 - Korea introduced DC plans in December 2005 by Employee Retirement Benefit Security Act
- Some East Asia countries have provident fund

DC plans and PF in Selected Countries of East Asia

DC plans	Provident Fund
Hong Kong, Korea, Japan	Hong Kong, Indonesia, Malaysia, Philippines, Singapore, Thailand

Will DC plans expand in East Asia? (3)

- What legal frameworks are important from Japanese experiences?
 - Investment education
 - Maximum contribution amount
 - Individual contribution
- DC plans do not always increase rapidly – increasing stock price may accelerate diffusion of DC plans