

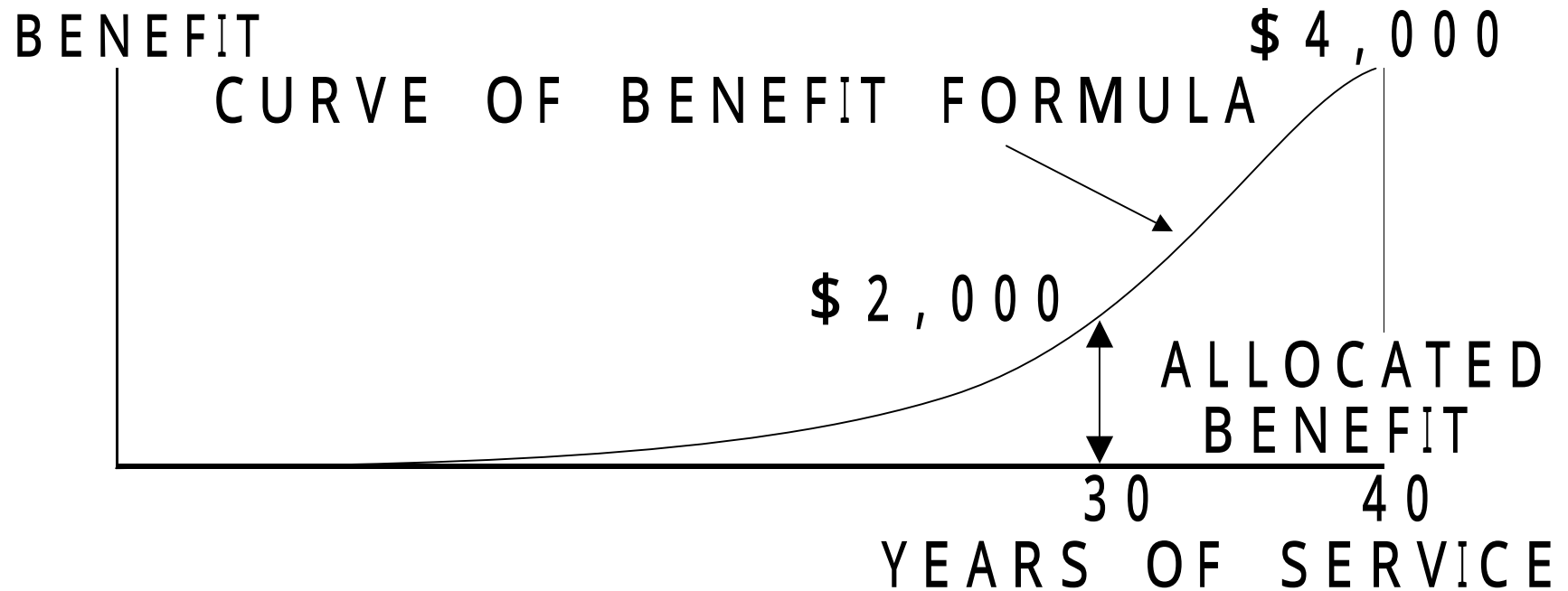
# Characteristics of Japanese retirement benefit plans and pension accounting

Hiroshi Kojima  
Yasuharu Sakurai  
Naoto Oda  
Junichi Nagasaki

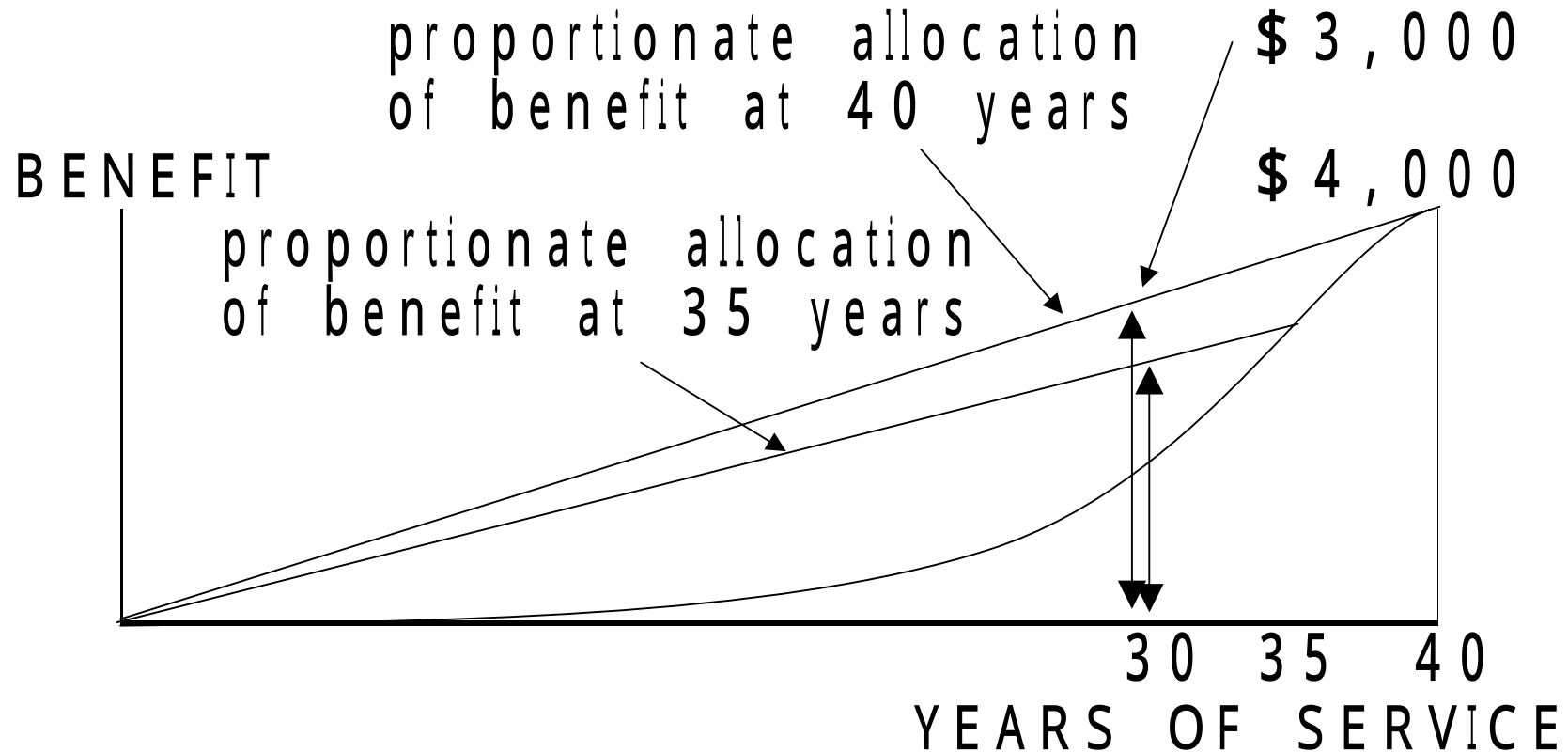
14th EAAC



# 0 - 1 . BENEFIT FORMULA METHOD



# 0 - 2 . BENEFIT / YEAR-OF-SERVICE METHOD



ALLOCATED BENEFIT  
= EXPECTED VALUE OF



# 1 . J A P A N E S E   R E T I R E M E N T   B E N E F I T   P L A N S

	TAX - QUALIFIED	non TAX - QUALIFIED
PENSION PLAN	EPF DBCPP TQPP (to be abolished in 2011)  DC	non tax - qualified pension plan
LUMP - SUM PLAN	Medium and Small Enterprise Mutual Aid scheme for Retirement Allowance	lump - sum benefit plan

## 2. MITSUI DRAPERY BUSINESS IN EDO ERA

	employees
京本店      Kyoto head office	114
(Tokyo)	
江戸本店      Edo head office	220
大阪本店      Osaka head office	158
7 branch offices	334
TOTAL	826

The number of employees includes housekeepers.

(from *Research about employees of Mitsui Echigo-ya.*)

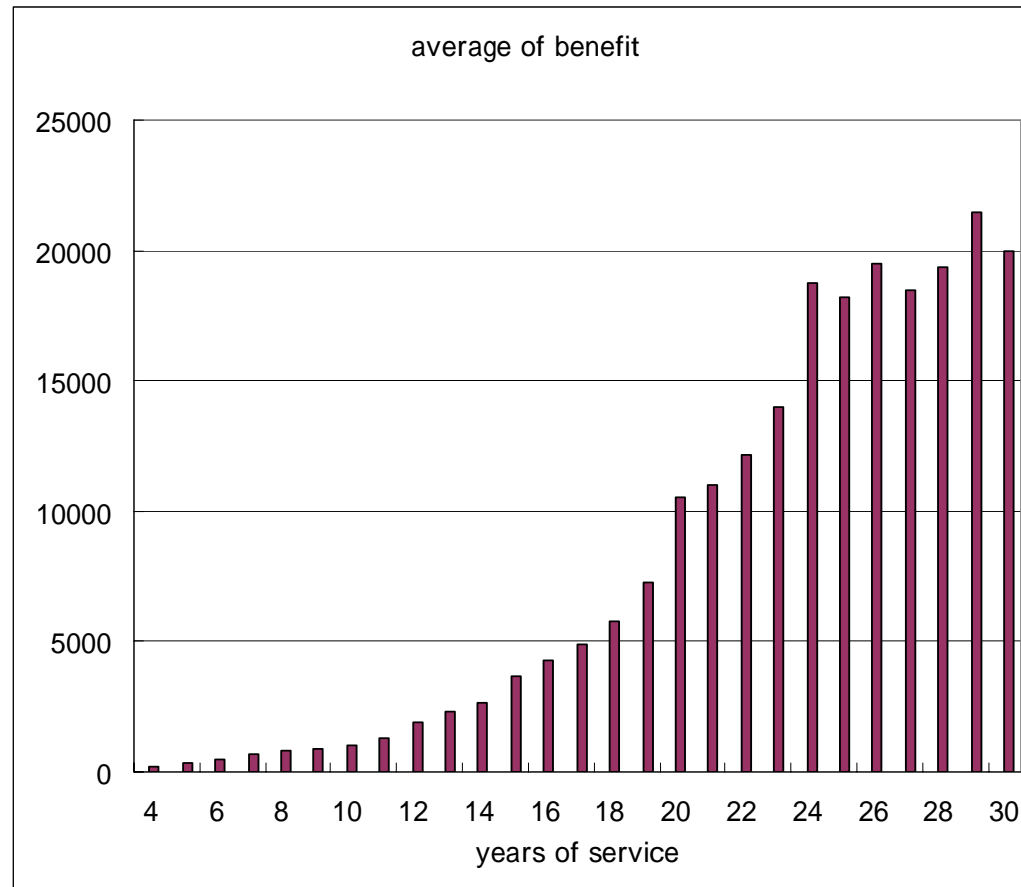
### 3. THE STRUCTURE OF KYOTO HEAD OFFICE

		NUMBER	AGE	YEARS OF SERVICE
OFFICERS (not live - in)		5	40-68	28-55
MANAGERS (live - in)	RANK 5	5	35-39	24-28
	RANK 4	5	32-36	21-25
	RANK 3	5	31-35	20-22
	RANK 2	4	28-31	15-20
ASSISTANT MANAGERS (live - in)	RANK 1 - 2	19	20-27 , 43	9-15
	RANK 1 - 1	17	17-21	6-9
APPRENTICES (live - in)		24	13-17	1-6

Housekeepers are not included. (from *Research about employees of Mitsui Echigo-ya.*)

# 4 . RETIREMENT BENEFIT

years of service	samples	average of benefit
4	1	215
5	17	332
6	17	448
7	17	664
8	10	827
9	15	868
10	9	1,043
11	8	1,286
12	14	1,909
13	9	2,307
14	8	2,678
15	12	3,683
16	2	4,250
17	11	4,882
18	13	5,742
19	11	7,273
20	2	10,500
21	5	11,000
22	4	12,167
23	9	13,978
24	5	18,750
25	11	18,227
26	15	19,464
27	7	18,500
28	3	19,333
29	1	21,500
30	1	20,000

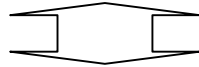


(from *Research about employees of Mitsui Echigo-ya.*)

## 5 . WHEN DOES THE CLAIM BECOME LEGALLY ENFORCEABLE ?

. . . A claim for retirement benefit occurs at retirement and is not legally enforceable before retirement. . . .

(ruling for the case of HakuSuitech by Osaka High Court)



The term “nonforfeitable” . . . means a claim obtained by a participant or his beneficiary to that part of an immediate or deferred benefit under a pension plan . . . , which is unconditional, and which is legally enforceable against the plan. . . .

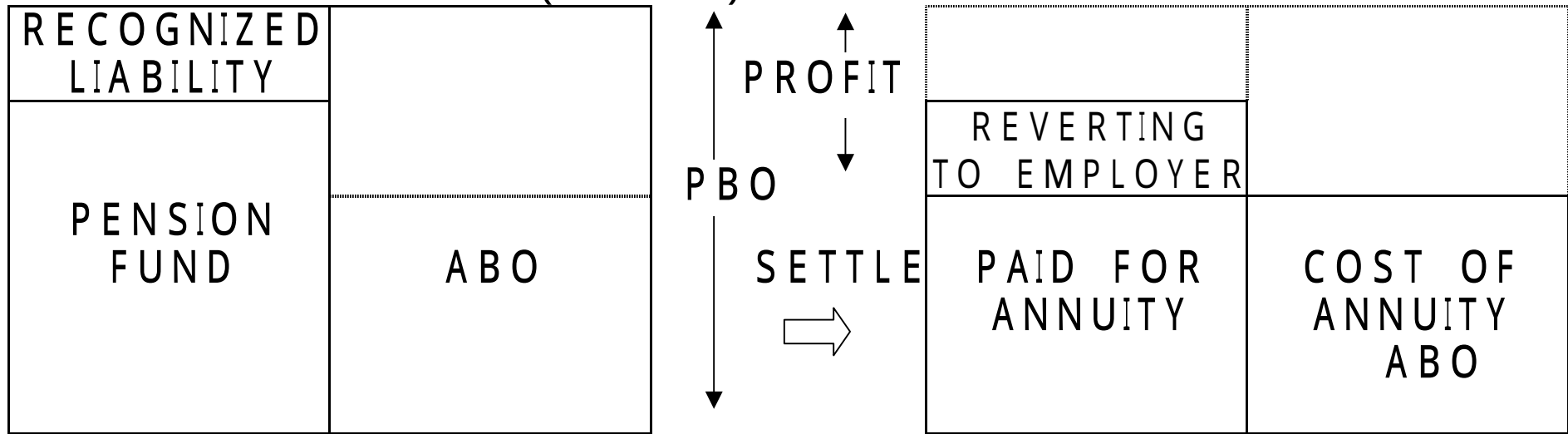
(Sec. 1002. Definitions (19), Employee Retirement Income Security Act  
- ERISA - 29 U.S. Code Chapter 18)

## 6 . BENEFIT REDUCTION

	REQUIREMENT
non TAX QUALIFIED PLANS	employees agreement or { necessity fairness effort of explanation (same treatment as working regulations)
TAX QUALIFIED PENSION PLANS	{ necessity employees agreement other legal requirements

# 7. WHAT DOES PBO MEAN?

## TERMINATION (U.S.)



## TERMINATION OF DBCPP (JAPAN)

PAY OFF TO PARTICIPANTS WITH A GUARANTEE ( PBO )

( PBO GIVES NO INFORMATION RELATING TO THE SETTLEMENT COST. )

## 8 . ACCRUAL ACCOUNTING

### DEFINITION

recognize an expense when the event  
which causes the expense occur

### WHAT IS THE EVENT ?

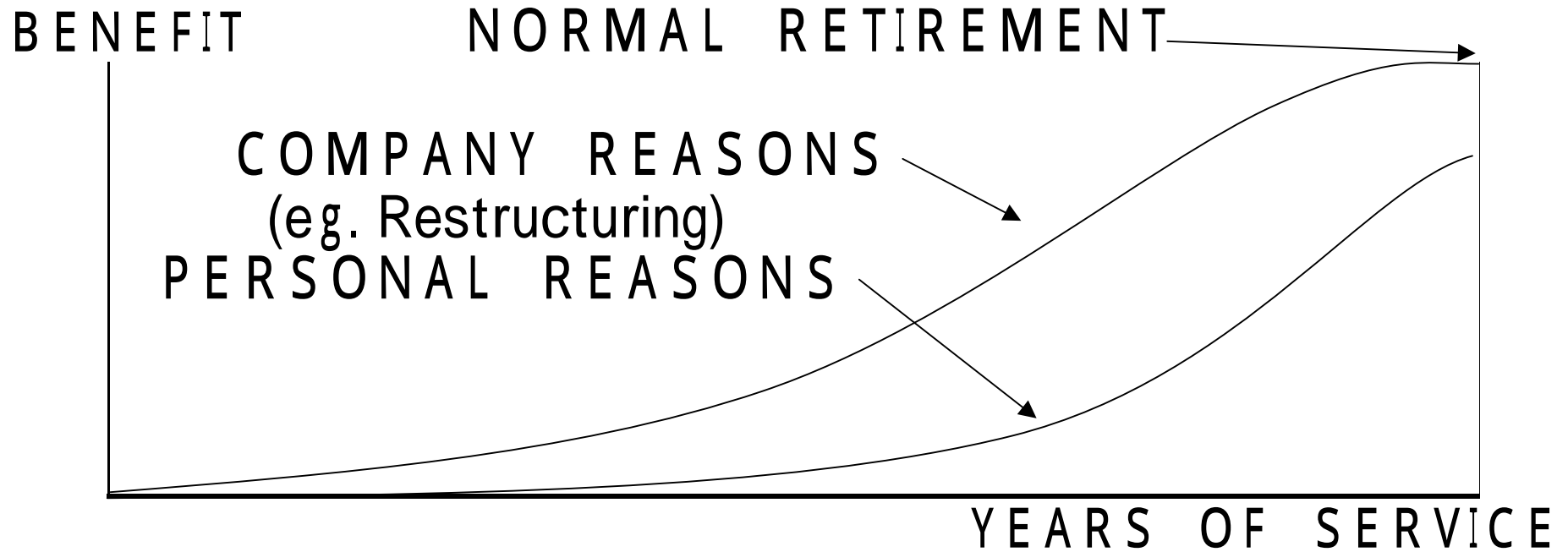
#### JAPAN

rendering service for a certain term

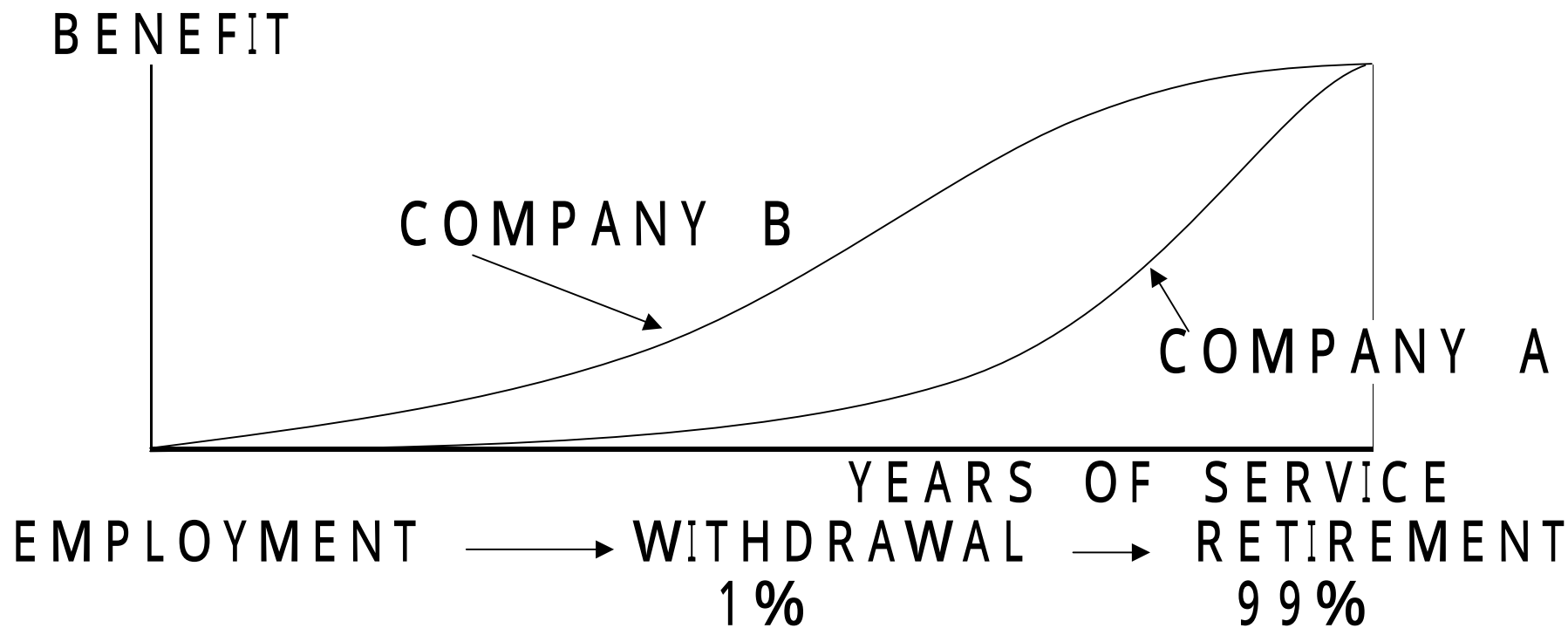
#### US

benefit accrual based on the benefit formula

# 9. BENEFITS DEPENDING ON THE REASON OF RETIREMENT

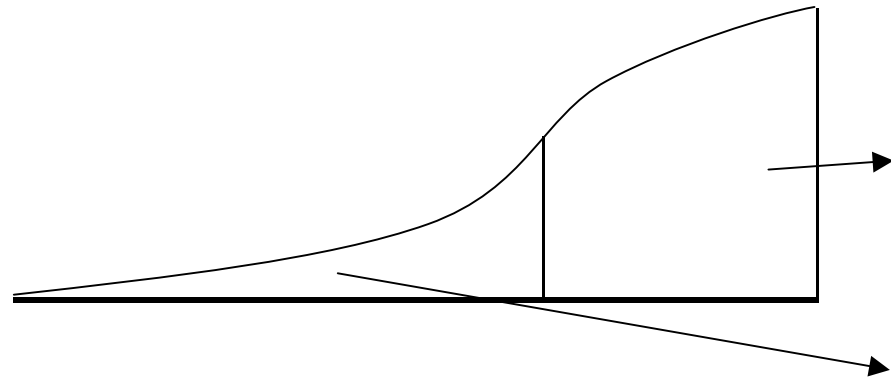


# 10. CASH FLOW AND PBO



CASH FLOW	A	B
PBO BY BENEFIT FORMULA	A < B	
PBO BY STRAIGHT LINE	A	B

# 11. PARTIAL PENSION PLAN



PAID FROM TAX QUALIFIED PENSION PLAN A
PAID FROM non TAX QUALIFIED LUMP - SUM PLAN B

benefit formula A

benefit formula B

How to allocate ?

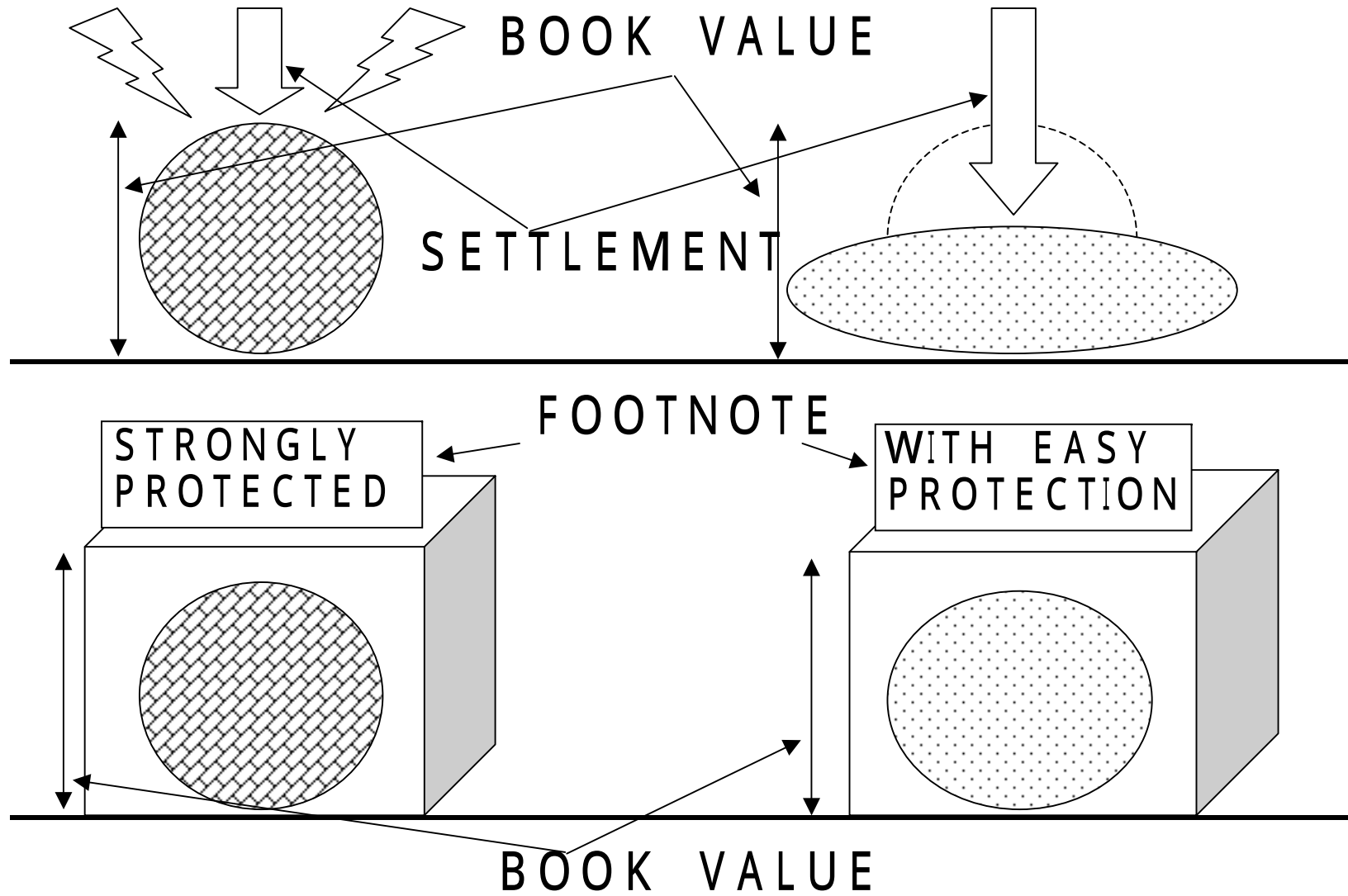
method 1

expectation with withdrawal probability

method 2

interpreting them as a single plan

# 12. SOFT OR HARD?



## 13 . STRAIGHT LINE METHOD

- GIVES MEASUREMENTS FAITHFUL TO THE CASH FLOW

- GIVES NO DISCRETION

- GIVES AN UNIVERSAL MEASUREMENT



END