<table>
<thead>
<tr>
<th>Title</th>
<th>New Development in Corporate Pension Schemes in Japan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Author(s)</td>
<td>Urata, Haruka</td>
</tr>
<tr>
<td>Citation</td>
<td></td>
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<td>URL</td>
<td><a href="http://hdl.handle.net/10086/14525">http://hdl.handle.net/10086/14525</a></td>
</tr>
</tbody>
</table>
Figure 1: Current Retirement Systems in Japan

Number of participants in parentheses

4th tier
Individual Savings

<table>
<thead>
<tr>
<th>Individual Annuity (20 million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Accumulation Pension Saving (Zaikei-nenkin) (3 million)</td>
</tr>
</tbody>
</table>

3rd tier
Corporate-Sponsored

<table>
<thead>
<tr>
<th>Employee’s Pension Fund (Kosei-nenkin-kikin) (12 million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Qualified Pension Plan (Tekikaku-nenkin) (10 million)</td>
</tr>
<tr>
<td>Portion paid by employer</td>
</tr>
</tbody>
</table>

2nd tier
National Pension Fund (0.9 million)

<table>
<thead>
<tr>
<th>Employee’s Pension Insurance (Kosei-nenkin) (33 million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mutual Aid Pension (5.8 million)</td>
</tr>
</tbody>
</table>

1st tier
Basic Portion

<table>
<thead>
<tr>
<th>National Pension (Kokumin-nenkin) (70 million)</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Self-employed (20 million) Category 1 insured persons</th>
</tr>
</thead>
</table>

| Spouses of category 2 (12 million) Category 3 insured persons |

<table>
<thead>
<tr>
<th>Private Employee (33 million)</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Public Employee (5 million)</th>
</tr>
</thead>
</table>
**Figure 2: Existing DB Schemes in Japan**

<table>
<thead>
<tr>
<th></th>
<th>Employee’s Pension Fund</th>
<th>Qualified Pension Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regulatory Body</td>
<td>Ministry of Health, Labor and Welfare</td>
<td>Ministry of Finance</td>
</tr>
<tr>
<td>Substitution of Social Security</td>
<td>A portion of Employee’s Pension Insurance (social security) benefits which are proportional to your pay is provided by Employee’s Pension Fund</td>
<td>No</td>
</tr>
<tr>
<td>Plan Management</td>
<td>Plan sponsors must establish a separate entity, Employee's Pension Fund, to manage plans</td>
<td>Plan sponsors make a contract with providers, such as life insurance companies and trust banks, to manage plans</td>
</tr>
<tr>
<td>Form of Benefit</td>
<td>Life annuities must be provided</td>
<td>Life annuities are not necessarily required</td>
</tr>
<tr>
<td>Contribution</td>
<td>- Employer contribution : deductible (no limit)</td>
<td>- Employer contribution : deductible (no limit)</td>
</tr>
<tr>
<td></td>
<td>- Employee contribution : deductible as Social Security Premium Deduction (no limit)</td>
<td>- Employee contribution : deductible as Life Insurance Premium Deduction (¥ 50,000 annual limit)</td>
</tr>
<tr>
<td>Taxation</td>
<td>- No tax on investment earnings</td>
<td>- No tax on investment earnings</td>
</tr>
<tr>
<td></td>
<td>- Special Corporate Tax is NOT imposed on the asset balance up to the certain limit &lt;Taxation is suspended until March 2003&gt;</td>
<td>- Special Corporate Tax (1.173%) is imposed on the asset balance. &lt;Taxation is suspended until March 2003&gt;</td>
</tr>
<tr>
<td>Investment</td>
<td>- Annuity : taxable, but Deduction for Annuity Payments applies</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Lump-sum : taxable, but Deduction for Lump-sum Payment applies &amp; separately taxed</td>
<td></td>
</tr>
<tr>
<td>Benefit</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Money Purchase Plans
Contributions are fixed regardless of company profits.

Profit Sharing Plans
Contributions can be changed at employers’ discretion.

401(k) Plans
Employees choose whether to participate and how much to contribute from their pay.

Employers make matching contributions.

IRA (Individual Retirement Account)
Individuals make contributions at their discretion.

---

**Figure 3: U.S. DC Plans vs. Japanese DC Plans**

**U.S.**

**Employer-sponsored Type DC**
- Contributions are fixed regardless of company profits.
- Employees cannot make contributions.

**Individual Type DC**
- Employees choose whether to participate and how much to contribute from their pay.
- Employers cannot make matching contributions.

**Japan**

**Employer-sponsored Type DC**
- Contributions are fixed regardless of company profits.
- Employees cannot make contributions.

**Individual Type DC**
- Employees choose whether to participate and how much to contribute from their pay.
- Employers cannot make matching contributions.
**Figure 4: Eligibility and Contribution Limits**

- **Spouses of Category#3 insured**
  - **Self-employed**
  - **National Pension Fund**
    - Contribution Limit: 68,000 yen/month minus contribution to National Pension Fund

- **Category#1 insured**
  - **Public Employee**
    - Contribution Limit: 15,000 yen/month

- **Category#2 insured**
  - **Employee of the company without DB plan nor Employer-sponsored DC plan**
    - Contribution Limit: 36,000 yen/month
  - **Employee of the company with DB plan**
    - Contribution Limit: 18,000 yen/month

- **Individual Type DC**
  - **Self-employed**
  - **National Pension Fund**
    - Contribution Limit: 68,000 yen/month minus contribution to National Pension Fund

- **Employer-sponsored Type DC**
  - **Employee of the company without DB plan nor Employer-sponsored DC plan**
    - Contribution Limit: 36,000 yen/month
  - **Employee of the company with DB plan**
    - Contribution Limit: 18,000 yen/month

- **Employee’s Pension Insurance**
  - **Portion Paid by employer**
  - **Mutual Aid Pension**

- **National Pension**
  - **Employee of private corporation, etc**
  - **Public Employee**

- Not eligible for DC
Figure 5: Eligibility of DC Plan -Flow-chart-

**Employee of Private Corporation**
- <less than 60 years old>
  - Employer DOES run any DB Plan
    - Employer DOES run Employer-Sponsored DC
      - Participate in Employer-Sponsored DC
        - 18,000 yen/month
    - Employer DOES NOT run Employer-Sponsored DC
      - Not Eligible for either Employer-sponsored DC or Individual DC
        - No Eligibility
  - Employer DOES NOT run any DB Plan
    - Employer DOES run Employer-Sponsored DC
      - Participate in Employer-Sponsored DC
        - 36,000 yen/month
    - Employer DOES NOT run Employer-Sponsored DC
      - Eligible for Individual DC
        - 15,000 yen/month

**Self-employed**
- <less than 60 years old
  - Employer DOES NOT run any DB Plan
    - Eligible for Individual DC
      - 68,000 yen/month
      - Net of the contribution to National Pension Fund

**Public Employee**
- House-wives
  - Not Eligible for either Employer-sponsored DC or Individual DC
    - No Eligibility
Figure 6: Who Play What Kind of Roles in Employer-sponsored Type DC?

- **Plan Sponsor**
  - Employee A
  - Employee B
  - Employee C

- **Plan Administrator**
  - Gather each Investment Directions
  - Provide Plan Information
  - Provide Information related to Investment Products

- **Investment Manager A**
- **Investment Manager B**
- **Investment Manager C**
- **Investment Manager D**
- **Investment Manager E**

- **Beneficiary**
  - Benefit Claim Forms
  - Benefit Payment

- **Benefit Payment Instructions**
- **Recordkeeping**

- **Trustee**

Either all or part of plan administrator's role could be handled by plan sponsor.
Figure 7: Who Play What Kind of Roles in Individual Type DC?

- Self-employed A
- Self-employed B
- Plan Sponsor
  - Payroll Deduction <Basic Arrangement>
- Employee A
- Employee B
- Benefit Claim Forms
- National Pension Fund Association
  - Prepare the DC plan document
  - Check the limit for contributions
  - Check the payment status of National Pension premium
  - Only for self-employed
- Outsourced Financial Institutions
  - Application/contribution
  - Selection
  - Beneficiaries
  - Benefit Claim Forms
- Individual Investment Direction
- Plan Administrator A
  - Gather investment directions
  - Recordkeeping
- Plan Administrator B
  - Present investment options line-up
- Plan Administrator C
  - Provide information of investment options
- Investment Managers:
  - Investment Manager “A”
  - Investment Manager “B”
  - Investment Manager “C”
  - Investment Manager “D”
  - Investment Manager “E”
- Benefit Payment Instructions
Join 60 years old
Change jobs

Contribution
Investment
Rollover

Investment Earnings
- Deferred until benefit payments
- Special Corporate Tax (1.173%) on the assets balance is levied
  - However, it is suspended through March 31, 2003

Benefit Payments
- Old Age Benefit
  Taxable. However, different deductions apply respectively for annuity payments and lump sum payment in calculating taxable income.
- Disability Benefit
  Tax-free
- Survivors Lump Sum
  Subject to inheritance tax
- Early Withdrawal Lump Sum
  Subject to income tax

Contributions
- Employer-sponsored Type
  Employers can deduct contributions
  Employees are not taxed on contributions
- Individual Type
  Individuals can deduct contributions from their taxable income
Appendix 1: Deductions for Benefits

1. **Deductions for annuity payments**
   - When receiving in the form of annuities, the following deductions apply.
   - All annuities from social securities, DB plans, DC plans are combined before applying the deductions.

<table>
<thead>
<tr>
<th>Amount of Annuities</th>
<th>Deductions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 2.6 mil yen</td>
<td>1.4 mil yen</td>
</tr>
<tr>
<td>2.6mil - 4.6mil yen</td>
<td>Amount times 25%+0.75mil yen</td>
</tr>
<tr>
<td>4.6mil – 8.2mil yen</td>
<td>Amount times 15%+1.21mil yen</td>
</tr>
<tr>
<td>More than 8.2mil yen</td>
<td>Amount times 5%+ 203mil yen</td>
</tr>
</tbody>
</table>

Age 65 or more

<table>
<thead>
<tr>
<th>Amount of Annuities</th>
<th>Deductions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 1.3 mil yen</td>
<td>0.7mil yen</td>
</tr>
<tr>
<td>1.3mil - 4.1mil yen</td>
<td>Amount times 25%+0.375mil yen</td>
</tr>
<tr>
<td>4.1mil – 7.7mil yen</td>
<td>Amount times 15%+0.785mil yen</td>
</tr>
<tr>
<td>More than 7.7mil yen</td>
<td>Amount times 5%+ 1.555mil yen</td>
</tr>
</tbody>
</table>

Less than 65 Years Old

2. **Deductions for lump-sum payment**
   - When receiving lump-sum payment, the following deductions apply.
   - All lump-sum money from retirement benefits, DB plans, DC plans are combined before applying the deductions.

<table>
<thead>
<tr>
<th>Years of Service</th>
<th>Deductions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 20 years</td>
<td>Years times 0.4mil yen</td>
</tr>
<tr>
<td>Beyond 20 years</td>
<td>Years over 20 times 0.7mil yen + 8mil yen</td>
</tr>
</tbody>
</table>

<Examples>
- If you work for 10 years  □ 4 mil yen (10 x 0.4mil)
- If you work for 20 years  □ 8 mil yen (20 x 0.4 mil)
- If you work for 30 years  □ 15 mil yen ((30-20)x0.7+8 mil yen)

- The amount remaining after the deductions should be divided by 2 to reach the taxable income.
- Separately taxed.
**Appendix 2: Benefit Projection**

**Assumptions:**
You receive the maximum contributions from the start of your employment (age 22) until age 60

<table>
<thead>
<tr>
<th>Contribution Amount</th>
<th>Investment Return</th>
<th>Assets at Age 60</th>
<th>Comparison with the average benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>18,000 Yen per Month (216,000 Yen per Year)</td>
<td>3%</td>
<td>15.28 Million Yen</td>
<td>55%</td>
</tr>
<tr>
<td></td>
<td>4%</td>
<td>19.23 Million Yen</td>
<td>69%</td>
</tr>
<tr>
<td></td>
<td>5%</td>
<td>24.45 Million Yen</td>
<td>87%</td>
</tr>
</tbody>
</table>

Percentage of the average total retirement benefits per employee (28 Million Yen)

Note: Salary and retirement benefit data is from Japan Federation of Employers Associations research of September 1998.
## Appendix 3: Comparison of U.S. 401(k) and Japanese Employer-Sponsored DC

<table>
<thead>
<tr>
<th></th>
<th>United States 401(k)</th>
<th>Japanese Employer-Sponsored DC</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Who May Contribute</strong></td>
<td>• Employees &amp; Employers (matching contributions / discretionary contributions)</td>
<td>• Employers Only</td>
</tr>
</tbody>
</table>
| **Annual Contribution Limit** | • Pre-tax Employee Contribution Limit: $10,500 (in 2001)  
• Aggregate DC Contribution Limit: Lower of $35,000 or 25% of pay | • Employer Contribution Limit: 432,000 yen for employer without DB plan  
216,000 yen for employer with DB plan |
| **Eligibility** | • All employees 21 years or older with at least 1 year of service must be allowed to join a plan.  
• Maximum age requirements are prohibited | • To be determined by plan rules  
• Participants must be less than 60 years old |
| **Vesting** | • Employee contributions: immediately 100% vested  
• Minimum requirement for employer contributions: 100% vesting after 5 years or graded vesting in 20% increments from 3rd through 7th year | • Minimum requirement: 100% vesting after 3 years. |
| **Investment Options** | • ERISA 404(c) plans require minimum of 3 options with different risk/return (company stock may also be an option but does not count toward one of the 3 options) & Switching among investment options must be allowed at least every three months. | • Minimum of 3 options (company stock may also be an option but does not count toward one of the 3 options)  
• Switching among investment options must be allowed at least every three months  
• At least one option must be a capital guaranteed product. |
## Appendix 3: Comparison of U.S. 401(k) and Japanese Employer-Sponsored DC (continued)

<table>
<thead>
<tr>
<th>Benefits Distribution</th>
<th>United States 401(k)</th>
<th>Japanese Employer-Sponsored DC</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Separation from service, Normal retirement age, At 59.5 years old, Death, and Disability.</td>
<td>• Minimum distribution rule: You must begin receiving benefits when you reach 70.5 years old (unless continue working)</td>
<td>• At 60 years old , Death, and Disability</td>
</tr>
<tr>
<td>• You cannot receive benefits when you leave company unless you are 60 years old or older.</td>
<td></td>
<td>• You must begin receiving benefits at 70 years old.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Loans and Financial Hardship Withdrawals</th>
<th>United States 401(k)</th>
<th>Japanese Employer-Sponsored DC</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Yes (hardship withdrawal subject to income tax and 10% penalty tax)</td>
<td></td>
<td>• Not allowed</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Portability &amp; Rollover</th>
<th>United States 401(k)</th>
<th>Japanese Employer-Sponsored DC</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Discretionary rollover to new employer’s 401(k) plan or IRA.</td>
<td>• You may leave your assets with the old employer’s plan.</td>
<td>• Mandatory rollover to new employer’s DC plan or Individual Type DC.</td>
</tr>
<tr>
<td>• No tax on rollover assets.</td>
<td></td>
<td>• You cannot leave your assets with the old employer’s plan.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• No tax on rollover assets</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Tax</th>
<th>United States 401(k)</th>
<th>Japanese Employer-Sponsored DC</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Contributions: tax deductible</td>
<td>• Investment Earnings: not taxed</td>
<td>• Contributions: tax deductible</td>
</tr>
<tr>
<td>• Investment Earnings: not taxed</td>
<td>• Benefits: subject to income tax</td>
<td>• Investment Earnings: not taxed</td>
</tr>
<tr>
<td>• Benefits: subject to income tax</td>
<td></td>
<td>• Special Corporate Tax: 1.173% on account balances</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Old age benefits: taxable but some deductions apply</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Disability benefits: tax-free</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Death benefits: subject to inheritance tax</td>
</tr>
</tbody>
</table>
Figure 9: Two New DB Plans Introduced by DB Bill

**Contract Type**
- Employer
  - Plan Document
  - Union (Or anyone representing 50% or more employees)
  - Beneficiary
- Contribution
- Contract
- Direction for Benefit Payment

**Fund Type**
- Employer
  - Agreement
  - Union (Or anyone representing 50% or more employees)
  - Beneficiary
- Contribution
- Contract

**Trust Banks**
- Life Insurance Companies
- etc

**Employee’s Pension Fund**
- Executive Committee
- Board
- Plan Document

**Benefit Payment**
- Benefit Claim Forms

**Benefit Claim Forms**
Figure 10: Plan Sponsors can Switch among New Pension Schemes

Current Pension System

- Employees Pension Fund
  - Qualified Pension Plan

New Pension System

- Employee’s Pension Fund
  - Fund type Pension
    - Employee’s Pension Fund
      - without substitutions component
  - Contract type Pension
    - More strict protection on vesting rights compared to existing Qualified Pension Plan.
- Defined Contribution Plan