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[The short running title]

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[Abstract]

There arose a serious pension record-keeping problem in Japan from May 2007. Around 50 million pension records of social security were found to be floating, not being integrated to the unified pension numbers. The pending records are due to human errors made by enrollees, their employers and agencies. There has been no integrated collection of taxes and social security contributions in Japan, and additionally no monitoring organizations have been effectively implemented in pension administration. The general public was under the illusion that government officials were able to do and did everything correctly without committing any errors. However, human errors are inevitable anywhere. Regular and prompt examinations over possible errors are required for proper record-keeping of pensions. Upon any no-match identified, an interactive notification and confirmation with correction should follow in due course. The trustworthy government with its competent and neat implementation is, thus, the basis for any pension system.

On Fifty Million Floating Pension Records in Japan

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1. Introduction¹

In May 2007, it was announced by the Japanese government that around fifty million records of social security pensions were floating, not being integrated to the unified individual pension identification numbers.² This mismanagement became a national scandal, ushering in the demise of Abe administration in the Upper House election in July 2007.

This paper will examine the current pension record-keeping problems in Japan. Section 2 describes what happened in keeping pension records. Section 3 discusses what was wrong in implementing social security pension programs. Section 4 explains

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² Imperfections in pension records are also known in other countries such as the United States, United Kingdom and Australia. In the United States, about 8 million social security records (around 4% of the total) need to be corrected every year, and around 5 million letters containing social security statements annually are returned to the Social Security Administration because addresses are no longer correct. Similarly, in the United Kingdom, every year, about 2 million pension contribution records (around 3.5% of the total) do not include the national insurance number. In Australia, around 6 million records were lost on members who quit their job or migrated abroad (see Bateman (2008)).

recent commitments by the government and their current performance on correcting errors in pension records. Section 5 gives some proposals for better pension implementation. The final section concludes this paper.

2. What Happened in Keeping Pension Records

Japan has several schemes of social security pensions among different sectors of the population. The oldest scheme dates back to 1884 and has a history of more than 120 years. The newest one was established in 1961. Before January 1997, pension identification numbers were issued to each participant independently from each pension program on the regional basis. They used to be changed when the participant moved to other regions, to other companies or to other pension programs. They were also changed when the participant acquired a new family name after his/her marriage or divorce. This is mainly because there was no adding-up requirement of covered years among the different pension schemes.³ Many Japanese, thus, were likely to have two or more pension identification numbers before retirement. It is only in January 1997 that the *unified* pension identification number was introduced for all eligible persons in Japan.

³ Currently we have an adding-up requirement of covered years among different schemes of social security pensions in Japan.

When the government implemented the unified pension identification number system, it found that there were some 300 million pension identification numbers, while the eligible persons were around 100 million in number, then. In notifying each unified identification number to all eligible persons, Social Insurance Agency (SIA), the management and implementation organization of social insurance systems in Japan, sent them post cards, asking whether they had multiple identification numbers for pensions in the past, and to send back their reply cards containing a list of all pension numbers they had in the past, if any. The SIA received only 9.16 million replies (around 9 percent), at that time. The majority of Japanese people failed to recognize how important the reply cards were, then.

Under the prevailing provisions, the pension identification numbers are not integrated to the unified ones, unless the eligible persons *notify* them to the SIA, with its confirmation. Japanese people usually notified their past pension identification numbers just before their retirement to receive their old-age benefits. The integration process was rather slow, in this sense, and there still remained around 50 million pending pension records not being integrated to the unified identification numbers, even 10 years after its implementation. The interactive information exchanges of pension record details between the program participants and the SIA did scarcely

work out.⁴

3. What Was Wrong

There are five major reasons for huge numbers of floating pension records in Japan. First, there have been careless mistakes made by the program participants, their employers, and the agency staff in writing the application forms, employers' reports on their employees' details, and in processing pension records. Human errors are inevitable. Furthermore, there were fraudulent or cheating activities by employees and/or their employers.

Second, generally speaking, Japanese people are *not* generous to errors. Government officials in Japan used to be regarded as the best and brightest, and thus too much reliance on bureaucracy was observed in the past. The general public was under the illusion that government officials were able to do and did everything correctly without committing any errors. The effective check system with a feedback for correcting any errors of pension records on a regular basis had never been implemented in Japan.

⁴ The floating pension records were also seen in *private* pensions in Japan. In case of the contracted-out occupational pension funds, 1.24 million cases (around one-third) were unpaid in 2006 to their eligible pensioners who terminated their participation before the normal retirement age. This is mainly due to the fact that their correspondence addresses were unknown. Other DC plans of 401 (k) type, which were introduced in 2000 in Japan, have the same difficulty, since the correspondence addresses of 20,000 account-holders are unknown today.

Third, to make the matter worse, Japan has unique difficulties in pronouncing Chinese characters. Prior to the introduction of digitized records in the 1960s, all pension records were kept in hand-written paper form. In the process of transferring these written records to computer records via punch cards, Japanese names written in Chinese characters could not be handled properly because of technological limitations at that time. Since there are variations in the correct pronunciation of Japanese names consisting of the same Chinese characters, it was necessary to ask each individual to verify the correct pronunciation of their name. However, the correct pronunciations of the names were not asked in processing punch cards, mainly due to budget limitations. Card punchers were forced to mechanically assign one pronunciation of each Chinese character, correct or wrong. Mistakes made in the process of transferring the records from the old format to the new one remained long uncorrected.

Fourth, there has been no integrated collection of social security contributions and taxes in Japan. This induced possibilities of fraudulent reporting on pensions by employers; underreporting the number of qualified employees, underreporting the amount of monthly salaries and bonus payments, etc.

Fifth, no monitoring organizations have been effectively implemented in the field of pension administration in Japan. This is mainly due to reluctance against information

disclosure by the SIA. It is only in May 2007 that the SIA made public the number of floating pension records after insistent inquiries by one member of the Parliament in the opposite party.

In sum, the knowledge of program participants about the pension system details was (and still is) insufficient and quite often they lost their pension entitlements simply because of ignorance. Their employers did not always pay enough attention to providing correct information to the SIA. The SIA, in turn, behaved passively, waiting until the participants claimed their entitlements.

4. Recent Government's Commitments and Their Current Performance

Since May 2007, the problem of a huge number of floating pension records has become one of the most serious national challenges, which the Japanese government has been vigorously trying to overcome. It classified the 50.95 million unidentified records by the insurees' age, finding that 22.15 million cases (around 43%) were of those less than 60 years old, and 28.80 million cases (around 57%) were of those above 60 years old.⁵

Investigations of pending pension records carried out between June 1, 2006 and August 6, 2008 led to the progress report of the following five findings. First, among

⁵ Around 0.30 million records had no information on the insurees' birth date and year.

the originally unidentified member records, 7.51 million (14.7%) were newly integrated. Second, 15.88 million of the unidentified records (31.2%) were of individuals who had either passed away or did not qualify for pension entitlements. Third, for 10.27 million of the unidentified pension records (20.2%), likely matches were identified, but needed to be confirmed, and special notification letters (“blue letters”) were sent to these individuals when addresses were available. In response to the special notifications sent out, replies were received in relation to 6.11 million notifications, while no reply was received in relation to 3.65 notifications. No addresses were available for 0.54 million of the likely matches. Fourth, 4.29 million unidentified pension records (8.4%) were likely matches, but still under investigation. Fifth, 14.15 million (27.8%) required further investigation in the future.

Thus, while some progress was made in resolving the issue, almost 19 million pension records still remain unidentified.

From April 2009, the SIA began to send out social security pension statements (“orange letter”) to all program participants annually. The statement includes pension information on the unified personal identification number, the insuree’s name, the pronunciation of the name, gender, birth date and year, date of enrollment and/or leaving the program, the identification of the company where the participant worked/works, all records of monthly salaries and semi-annual bonuses he/she

received, records of contributions and expected amounts of monthly pension benefits.

The SIA strongly expects that upon receiving this statement, the participants will actively make responses, which will enable the Agency to integrate the pending pension records and to correct remaining errors in the SIA pension data base.⁶

5. Some Proposals for Better Pension Implementation

So far, the Japanese government was swamped by the task of integrating floating pension records, and had little time to rebuild an administration system of *correct* pension record-keeping.

Japan no longer suffers from corruption among the Agency officials, observed in many developing countries. Rather, a huge number of floating pension records were mainly due to a series of misconduct without any prompt correction of errors.

Proposals for better pension implementation are as follows.

Periodical Feedback for Correcting Errors

⁶ The government set up a third party committee for pension record scrutiny that allows insureds to appeal when their pension records do not reflect their actual payment histories. Difficulties take place, however, since a majority of people in Japan more often than not failed to keep the pay-slips or receipts of past pension contributions. Many no longer have any proof that is required for correcting their pension records. As of April 26, 2009, the third party committee had received 89,380 cases, had examined 62,754 cases (70%), and had only approved 24,061 cases (38.3%).

Given that human errors are inevitable, pension management system should be designed in such a way that any human errors are checked promptly with a set-up of periodical and interactive feedback from the system participants, their employers and the agency. Upon any no-match identified, notification with responding correction and confirmation should follow in due course.

The Japanese must be more realistic and cool-headed to accept that many errors are intrinsically human. Human errors not only took place in the past, but also are and will be taking place even today and in the future. The Japanese should be more generous to human errors.⁷ The feedback system for error correction needs more funding, more human resources and more machines.

Moreover, pension participants and their employers have to be more active in the error correction process. Unfortunately, so far, the involvement of participants has been limited in Japan. The SIA sent out 100 million letters in January 1997 asking participants to report their multiple pension numbers to be unified under one pension identification number. Only 9.16 million (9%) replies were received, as mentioned above. From December 2007 to March 2008, special notification letters were sent out to 10.27 million people because their pension records were likely to be identified if

⁷ The SIA in Japan had a strong incentive to hide negative information such as errors and fraud. It was apt to think that if negative information became public, public criticisms would destroy the reputation and credibility of the SIA, and that this would further increase the number of drop-outs from the social security pensions. In the long run, however, this would create irrecoverable damage to the administration of the pension system. This is exactly what happened with the SIA in Japan.

participants provided further information. Only slightly more than half of those contacted replied. The SIA sent additional letters to encourage participants that did not reply to provide information, asking their commitments to the error correction process. Without their cooperation, this process cannot be completed.

Moving towards e-Government

Many countries are moving towards e-government. Much information is released through the internet and e-mails on both private and public levels. Governments also use these instruments more extensively than before. The Japanese Government has announced that governmental administration and registration procedures should use computer-cum-internet systems more extensively in the coming years.

It is essential for the pension administration to keep valid correspondence addresses of all participants. The central government and municipal governments, in fact, collect individual and household information on various occasions such as the time of birth, school enrollment, new employment, change of jobs, medical examination, hospitalization, passport issue, driver's license issue, marriage, divorce, death, change of address, and tax payment. If the various levels of government were able to share such information and consolidate it in the same database, it would be

much easier to find and correct pension participants' valid addresses.⁸

Needless to say, governments need to pay full attention to security and privacy issues in relation to the internet and e-mail. In so doing, they are required to send sensitive information via postal mail or ask participants to access such information on the internet in a strictly protected way.

Under e-Government, pension participants will be able to access their records on past pension contributions along with past monthly wages they received through the internet, so that errors can be quickly corrected. As the recent pension record problems in Japan reveal, individual records are not necessarily correct. In order to amend errors in the pension records, participants should keep their wage records and receipts of their public pension contributions for some years.⁹ Under e-Government, companies would also be required to register all the relevant information through the internet. Various types of information on each company could be consolidated into an individual company record. Assembling data on a company in this way would make it difficult for companies to commit fraud in relation to pension records.

Integrated Collection of Taxes and Social Insurance Contributions

⁸ In Sweden, for example, all government registration information is pooled and consolidated or classified into an individual information account which is administratively efficient, convenient, and cheaper than keeping separate databases.

⁹ This is already a common practice in many other countries. In France, for example, insurees are required to keep all receipts for 40 years, while in Italy, they are required to keep them for at least five years.

The SIA in Japan is to be divided into two independent organizations. One is the National Health Insurance Association, which was activated already from October 2008. The other is the Japan Pension Agency (JPA), which will be established in January 2010. According to the stipulations establishing the JPA, the agency will be responsible for collecting and handling pension contributions. However, as a matter of comparative advantage, the tax bureau has more expertise in collecting various taxes and social insurance contributions. In fact, in many countries, collection of social security contributions is delegated to the tax bureau.¹⁰ Since the tax bureau usually has more information on companies' profits and transactions, companies would have less room to evade pension contributions. From the employers' perspective, it is cost effective (that is, compliance costs are lower) when they pay taxes and pension contributions at the same time. Thus, it would be better in Japan, also, to move to integrated collection of pension contributions by the tax bureau.

Giving Much More Importance to Implementation

The huge number of floating pension records induced blazing anger by the general public and stormy distrust against Parliament members of ruling parties in Japan. The

¹⁰ See Sandford (1995) and Zaglmayer et al. (2005).

members transferred their responsibility to government officials in the SIA. Abolishing the SIA was legislated in June 2007. There was a strong demand for drastic sanctions, and it still remains little changed. The JPA, a special non-public entity, is to be established, instead.

There are two objectives in setting up the JPA. The first is to reduce the size of the organization by cutting the number of staff by 40% (from 23,780 in 2005 to 14,470 in 2012). The second is to progressively use outside resources (that is, private companies).¹¹ Consequently, around 3,000 existing officials will be redundant at the SIA by the end of year 2009, and they will be fired. It is as if the SIA staff would become a “scape goat”.

The reduced number of JPA officials, as mentioned above, was calculated on the assumption that they will be engaged in usual operations, and that no work will be required of them to manage the very serious, difficult and long-lasting integration problem of floating pension records. It still remains who will take on this problem, if not the JPA staff.

The existing SIA staffs are likely to lose their pride and sense of mission under the

¹¹ The following items are to be outsourced: the processing of various application forms and documents; the initial screening of application forms; the use of call centers to reply to pension and health insurance-related questions; public awareness campaigns for social security pension system, measures to encourage the pension participants to contribute and help for those who can apply for payment exemptions, and general administrative work such as the calculation of the JPA members' salaries, the provision of fringe benefits, and the maintenance of facilities.

persistent and severe bashing against them, which induces lower motivations. Many of them get tired from overtime work of the past two years. Some already quit their job, switching to careers outside the SIA.

The integrity of government officials in charge of pension matters ranging from the system design to field operations has hardly been observed in Japan. This is all due to wrongful disregard for operational practice of pensions. Greater importance must be urgently placed on implementation issues.

6. Concluding Remarks

Japan already has more than 35 million beneficiaries of social security pensions, amounting to nearly 30% of the total population. It has become normal for people to take pension benefits as granted, like the air that they breathe..

There are three major issues on social security pensions; design, coverage and implementation. The implementation issue has little been analyzed however. But, its importance is growing, at least in Japan.

There arose a serious pension record-keeping problem in Japan from May 2007. Namely around 50 million pension records of social security were found to be floating, not being integrated to the unified specific pension numbers. The pending records are

due to human errors made by enrollees, their employers and agencies. There has been no integrated collection of taxes and social security contributions in Japan, and additionally no monitoring organizations have been effectively implemented in the field of pension administration. Government officials in Japan used to be regarded as the best and brightest, and thus too much reliance on bureaucracy was observed in the past. The general public was under the illusion that government officials were able to do and did everything correctly without committing any errors. However, human errors are inevitable anywhere. Regular and prompt examinations over possible errors are required for proper record-keeping of pensions. Upon any no-match identified, an interactive notification and confirmation with correction should follow in due course. The trustworthy government with its competent and neat implementation is, thus, the basis for any pension system.

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