

JAPANESE CORPORATE PENSIONS: THE CURRENT ISSUE

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I. *Introduction*

In recent years, Japan's pension system and the problems it faces have come to be widely regarded as one of the most important policy issues in Japan. The introduction of the Basic Pension (*kiso nenkin*) will be the first step towards the reorganization of the various public pension schemes into one unified system. However, pension reform as a whole still has a long way to go.

An important premise that must be considered when discussing Japan's pension issue is the likelihood that the current relatively low rate of economic growth will continue for some time into the future. This is of particular concern when considered in the light of the budget constraints already existing and Japan's inbuilt structural domestic budget deficit problem. It would seem that the pension system and other social security programs are destined to become of serious concern to the financial standing of the country.

Despite what be publicly announced about the financing of the public pension system in Japan, it is, broadly speaking, turning into a pay-as-you-go system. Under such a system, the well-being of the national economy will have a direct effect on the pension's financial standing. Given that a low rate of economic growth, and consequently tight national budget deficits are expected to continue, it is necessary to carefully consider the problems that may arise and look into ways of finding solutions to them.

The very rapid changes that are occurring in the demographic structure is another factor of significant importance to this pension problem. In the year 2025, it is expected that over 20 percent of the total population will be in 65 and over age bracket.¹ This will mean that one in every five people will need to be supported by the pay-as-you-go contributions of the working population.

Given these circumstances, the idea of promoting the development and spread of corporate pension plans is considered to be one of the ways of both maintaining income after retirement and supplementing the public pension plan. Other ideas, such as the re-adoption of the advanced funding system within the public pension plan or the establishment of individually fully reserved systems as an additional benefit, are also worth considering as potential solutions to the pension problem.

The purpose of this paper is to discuss the issue of the corporate pension plan, from

¹ See, Fujita, 1984c, pp. 82-88.

the viewpoint that such a system should be supplemental, or a substitute to, public pension benefits.

II. *Public Pensions*

1. The Current Public Pension System

All Japanese, aged 20 and over, have been covered, with some exceptions, under national-wide public pension schemes since 1961. Public pension schemes in Japan have developed and become firmly established in the last quarter of a century.

Today, depending largely on differences in occupation or service, Japanese public pension programs consist of three main types, although seven distinct systems can be recognized, these being:

“Employees’ Pension Insurance”—(EPI)

“National Pension”—(NP)

“Mutual Aid Pensions”—(MAP), of which there are five.

Mutual Aid Pensions are provided by Mutual Aid Associations and cover special services and occupations, such as national civil servants, local civil servants, and employees of public corporations.

As can be seen from Table 1, the EPI and NP programs are major schemes in Japan. EPI’s membership is limited to employees in private enterprises normally employing five or more persons, where as NP is for the rest of the nation in general, excluding those already covered by the other two previously mentioned schemes.

However, as it is generally accepted that the rapidly aging society and the inevitable changes in the structure of industry will result in substantial changes to our current social and economic conditions, significant reforms are occurring throughout the entire pension system, in order to ensure the development of a public pension system that will have a sound financial basis and be capable of lasting well into the future.

2. Establishment of the Basic Pension

The National Pension Act and the Mutual Pension Act were revised in March 1985 and December 1985 respectively, and it is intended that the Basic Pension Plan will be put into practice after April 1986.

TABLE 1. COVERAGE OF THE PUBLIC PENSIONS (1983)

Schemes	Number of Insured Persons (thousand)	Number of Old Age Pensioners (thousand)
Employees’ Pension Insurance	26,224	2,507
National Pension		
Contributory	26,461	5,994
Non-Contributory	—	2,597
Mutual Aid Associations	6,031	1,311
Total	58,716	12,409

Source: Kosei Nenkin Kikin Rengokai (Pension Fund Association) ed., 1984, p. 3.

The key point of the new plan is that it will bring about a new "double deck" type of pension system, with an occupational pension portion — corresponding to the income related part of the EPI and MAP respectively — on the top of the Basic Pension which is scheduled to provide the monthly benefit of 50,000 yen in security of 40-year-contributions.²

One of the reported aims of the pension reform in this time is to attain "fairness," a concept which needs to be considered from two aspects. The first point is the need to secure fairness among generations, that is, between pensionaries and contributors. The second point is to secure fairness in the same generation, namely, among pension plans, and/or between the genders.

In these respects, the introduction of the Basic Pension Plan could be said to be aimed at minimizing the gap that is apt to exist between different pension systems. The pension right newly granted to the wife of an employee should be highly appreciated from the point of fairness.

Another target of the pension reform is, allegedly, to realize "rationalization," namely, to restore an appropriate balance between obligation and benefit. In actuality, balancing means an increase in the level of obligation and a drawing down in the level of benefit. By bringing the appropriate balance into effect, it is intended to close the gap between obligation and benefit.

Eventually, in the newly proposed EPI, the level of benefit will be knocked down 40 percent given an assumed rate of contribution of 28.9 percent. If, however, for political reasons, the proposed contribution rate is set at no more than 20 percent — incidentally, premium rate is set at 12.4 percent for males as of April 1986 —, then the level of benefit would come down still lower.

Thus, as it is obvious that the public pension plan will have financial limitations, serious consideration will have to be afforded to the establishment of a supplementary system, or alternatively, to the expansion of the current pension system.

III. *Present Corporate Pension Plans*

1. The Development of Corporate Pensions

Japanese corporate pensions plans consist of the following three types:

- (1) Voluntary Company Pensions — (VCP): *jisha-nenkin*
- (2) Tax-Qualified Pensions — (TQP): *zeisei-tekkaku-nenkin*
- (3) Employees' Pension Funds — (EPF): *kosei-nenkin-kikin*

Japan's corporate pensions appear to have been derived from the severance payment system which was established as an employment practice early in the 20th century.

Severance-pay, which originally was awarded as a reward to loyal employees for long service, seems to have had the effect of attracting high quality manpower to specific firms and of securing their immobility until the mandatory retirement. The rapid spread of this system to various companies in the years immediately following the War was helped by the influence of the aggressive trade union movement.

At this point, it should be noted that the public pension was almost destroyed by the

² See, Fujita, 1984b, pp. 10-17.

post-war inflation. Moreover, it should also be kept in mind that the introduction of the "Reserve Fund for Retirement Allowance" in 1952 widely promoted and encouraged the continuance of the severance-pay system, as this Fund resulted in certain beneficial tax advantages. That is, it enabled a statutory-defined share of the amount reserved for an expected retirement allowance to be treated as a tax deductible necessary expenditure.

According to a "Retirement Allowance Survey" conducted by the Labor Ministry in 1951, in more than 80 percent (or in 24,000 cases) of establishments which employed 30 or more persons, there existed stipulations pertaining to a retirement allowance. Incidentally, it was reported that such systems covered more than 4.6 million workers.

In the subsequent years, Japan underwent rapid development, marked by high economic growth and considerable changes to the demographic structure of the population. In line with the expansion in GNP, Japanese workers have obtained increasing wage levels, and at the same time, the numbers of pensioners in proportion to workers have increased considerably.

This has justly led to concern that the resulting sharp increase in the amount of lump-sum severance payments may have adverse consequences to cost-management within companies. Therefore, it has been repeatedly advocated to use an annuity payment system to even-out fluctuating lump-sum payments, that is, to pay severance payment by means of installments, the amounts of which are determined by cost-management considerations.

In this sense, Japanese corporate pensions may be regarded as a modification of severance-pay, and as such, appear to have the merits of being able to provide, simultaneously, regular income for retired workers and stabilized costs for the firms.

2. Voluntary Company Pensions

Corporate pension plans in Japan do not have as long a history as those in Western countries. A group of large sized companies, with various intentions in mind, are said to have initiated this type of pension plan, as part of an internal welfare system, late in the Meiji Era.

These plans have been operated on a voluntary basis by employers (hence are referred to as Voluntary Company Pensions) and have consequently not been party to any favorable tax treatment or any government subsidies. Mostly, these pensions have been administered on a pay-as-you-go basis, although in a few cases, via an advanced funding method.

However, because of certain characteristics of VCP plans, there is the possibility that their very *raison d'être*, that is, to ensure that employees are covered by a secure and honest pension system, may be impaired.

TABLE 2. ADJUSTMENT BETWEEN TQP AND SEVERANCE-PAY

(Trust Contracts, 1985)

Classification	Number of Funds	Rate (%)
Total Adjustment	1,409	20.2
Partial Adjustment	4,408	63.2
No adjustment	1,156	16.6
Total	6,973	100.0

Source: Mitsubishi Trust & Banking Corporation, ed., 1985, p. 3.

Firstly, VCP plans do not come under the jurisdiction of any specific laws. Accordingly, the benefits pertaining to VCP plans can be regarded as voluntary grants, which theoretically can be subject to termination at any time.

Secondly, there is an underlying financial instability inherent to the pay-as-you-go method upon which most VCP plans are based; in times of recession, they may be in danger of insolvency.

Moreover, as they are not party to any tax deductible benefits, they are disadvantaged by higher cost. In all, this has resulted in VCPs accounting for only a small share and being limited to a handful of large-sized companies.

3. Tax-Qualified Pensions

The Tax-Qualified Pension system (TQP) was institutionalized in 1962 following the amendment of the Corporation Tax Law and the Income Tax Law. Every company with 20 or more employees became eligible to establish a TQP. This plan was modelled on a similar US plan and enabled definite tax advantages to be obtained on contributions, reserve fund, benefits and so on, once all the requirements prescribed by the relevant laws were met.

Moreover, TQP plans are eligible for Government subsidies, provided that the contributions, which are paid almost entirely by employers, are treated as necessary expenses under the Corporation Tax Law mentioned above. Although TQP plans are not as favorable as EPFs in terms of tax arrangements, it is alleged that it is easier for TQP plans to obtain the required official approval for establishment and are subject to less strict regulations than EPF plans.

To become qualified as a TQP, the pension must satisfy certain conditions of which a foremost one is that the pension funds must be deposited outside of the company. Other main criteria are:

- (1) Benefits should be old age pensions for the retired-employees.
- (2) Benefits and contributions should be calculated on the basis of reasonable actuarial assumptions.
- (3) Past service liability should be amortized in accordance with a specific method, chosen in advance among three methods.
- (4) The pension assets should belong to the participants themselves, except in cases where pension rights are to be transferred to an EPF plan or another TQP plan.

TQP benefits, which are expressed as a percentage of final base pay, become vested only at retirement after long periods of service of a minimum time period of 20 to 25 years. Most of these corporate pensions provide for "annuity certain," usually for five or ten years, in order to aid the management of increasing costs. TQP plans are currently believed to prevail within nearly 67,000 companies, covering 7.2 million employees.

4. Employees' Pension Fund

The Employees' Pension Fund (EPF) system was introduced in 1965 (taking effect the following year), for the purpose of providing a means of adjustment between public and private old-age pension systems. Hence EPF are often referred to as Adjusted Pension. But, on account of the difficulty to provide adjustment for invalidity and survivors' pensions, the EPF system only applies to old age pensions.

TABLE 3. SELECTION OF PENSION OR SEVERANCE-PAY IN TQP PLANS, 1984

(million yen)			
Classification	Trust Type	Insurance Type	Total
Pension			
Numbers of Pensioners (persons)	49,036	26,868	75,904
Benefit Amounts (million yen)	22,509	15,637	38,146
Severance Pay			
Numbers of Pensioners (persons)	134,187	163,372	297,559
Benefit Amounts (million yen)	234,414	168,614	403,028

Source: Mitsubishi Trust & Banking Corporation, ed., 1985, p. 3.

TABLE 4. FUNDS TYPES OF THE EPF

(March 1985)

Funds Types	Trust	Insurance	Total
Single-Company Funds	348	43	391
Allied-Company Funds	343	52	395
Multi-Company Funds	261	16	277
Total of Funds	952	111	1,063
Numbers of Participants	6,095,769	635,851	6,731,620

Source: Mitsubishi Trust & Banking Corporation, ed., 1985, p. 5.

Companies with more than 1,000 employees may be qualified to introduce this specific pension plan, provided that it will result in a higher level of benefit being received than would ensue from a public pension. Accordingly, EPF benefit is derived from two components, the first being the "substitutional" part which corresponds to the earning-related portion of the public pension, that is, EPF in effect, "contracts-out" of the second tier of EPI. The second component is an "additional" benefit, derived from the company itself.

"Contracting-out" schemes like EPF are subject to the provision that the resulting benefit-level has an actuarial value of at least 30 percent more than would have ensued had normal public pension prevailed. In addition, EPF schemes are required to have a benefit-level that reflects the earnings attained by each employee during his/her entire service period and the pension must be payable in the form of a life-annuity.

As with public pensions, the premium of the "substitutional" part is to be made up from equal payments by the employer and employee. The government is required to subsidize the scheme by an amount equivalent to 17.5 percent of the "substitutional" component of the benefit amount. Contributions for the other costs, which include the expense of the "additional" component and amortization of the "past service liability," are usually required to be paid by the employers.

The financing of EPF schemes is on an advanced funding basis, and is subject to government supervision to ensure financial soundness. As in the case of TQPs, the fund-assets are to be delegated to trust-banks or insurance companies who will act as trustees over the funds and be responsible for fund management by investing the assets in various securities, such as equities, bonds or loans. However, such portfolio allocations are subject to the following strict government regulations and limitations to ensure that the fund's assets remain financially secure and sound.

- (1) At least 50 percent of the fund must be invested in capital secured investments.
- (2) No more than 30 percent can be invested in stock.
- (3) No more than 20 percent can be invested in real-estate.
- (4) Only 10 percent or less in foreign investments.

However, it should be noted that the regulations related to investment managers and investment portfolios have been gradually liberalized in Japan, in response to both the world-wide demand for free competition in trustee-undertaking and to enable high returns from unrestrictive investments.

5. Present Status of Corporate Pensions

According to a survey of the Labor Ministry, about 45 percent of the companies having more than 30 employees in Japan have some form of corporate pension plan. At the end of fiscal 1983, EPF and TQP schemes widely prevailed across the private sector, covering 6.6 million and 6.8 million workers respectively. Table 5 shows the spread of coverage of these two schemes.

TABLE 5. SUMMARY OF EMPLOYEES' PENSION FUND AND TAX-QUALIFIED PENSION

	Employees' Pension Fund	Tax-Qualified Pension
Foundation	October 1966	April 1962
Basic Law	Employees' Pension Insurance Law	Corporation Tax Law
Members	Those who are insured by EPI and employed in companies having EPF	Persons who are employed in companies
Minimum number of members for establishment	1,000 employees	100 employees (trust contract) 20 employees (insurance contract)
Benefit	Old-age pension (life annuity)	Old-age pension (not necessarily life annuity, and annuity-certain more than 5 years is possible)
Provision of pension amount	Whole pension amount should be more than 1.3 times of substitutional part	Not defined
Management	The fund (special juridical person)	The company
Employer's contribution	Fully tax-deductible	Fully tax-deductible
Employee's contribution	Fully tax-deductible same as with social insurance premiums	Tax-deductible within a certain limit same as with life insurance premiums
Fund assets	Tax-free up to a certain ceiling, then 1% above the ceiling	1%
Benefits	Pension: taxable as earnings (there is special deduction same as with EPI) Lump-sum: taxable as retirement income	Pension: taxable as earnings Lump-sum: taxable as retirement income
National Subsidy	17.5% of the amount of substitutional part	None

Source: Kosei Nenkin Kikin Rengokai (Pension Fund Association), ed., 1984, p. 16.

TABLE 6. FUND ASSETS OF EPF AND TQP

(100 million yen)

End of FY	Employees' Pension Fund			Tax-Qualified Pension			Total
	Insurance	Trust	Total	Insurance	Trust	Total	
1975	2,861	11,519	14,380	4,547	5,854	10,401	24,781
1976	3,878	15,485	19,363	5,633	7,515	13,148	32,511
1977	5,150	20,208	25,358	7,001	9,327	16,328	41,686
1978	6,712	25,376	32,088	8,723	11,359	20,082	52,170
1979	8,657	31,312	39,969	11,013	13,771	24,784	64,753
1980	11,292	37,936	49,228	13,845	16,678	30,523	79,751
1981	14,669	45,643	60,312	17,225	19,841	37,066	97,378
1982	19,131	53,953	73,084	21,184	23,356	44,556	117,640
1983	24,033	63,625	87,658	25,747	26,946	52,771	140,429
1984	29,568	74,922	104,490	31,117	30,876	61,993	166,483

Source: Kosei Nenkin Kikin Rengokai (Pension Fund Association), ed., 1984, p. 14; Mitsubishi Trust & Banking Corporation, ed., 1985, pp. 4 and 7.

According to a Labor Ministry survey of the retirement pay system in 1981, there has been an increase in the numbers of companies which have introduced systems combining lump-sum and annuity payments. The proportion of firms surveyed which have introduced retirement annuity pay, including these combined systems, accounted for more than 40 percent of the total. Yet, at the same time, less than half of the total number of employees in Japan are covered by corporate pensions.

Both the numbers of companies adopting the pension plans and the numbers of pensioners have been increasing gradually in the past five years. The total fund assets of EPF and TQP, all of which are required to be entrusted to a trust-company or an insurance company, amounted to eight trillion eight hundred billion yen and five trillion three hundred billion yen for EPF and TQP respectively in 1983.

In the past, corporate pensions in Japan have not played so much of an important role as public pensions in comparison to Western nations, largely due to the fact that public pensions developed first and as yet corporate pensions are relatively undeveloped. However, corporate pensions have been growing in prominence in recent years, such that they are now on a par with those in Western nations, and it would seem that they will come to be fully supplemental to public pensions in the future.

The points on the following pages outline the main issues related to corporate pensions that will require careful deliberation in the near future.

IV. *Problems Related to Corporate Pensions*

1. Tax Arrangements

Some taxation related problems have arisen as a result of the differing tax treatment between pensions and lump-sum payments or between EPF and TQP plans.

With pensions, almost all of the benefit amount is taxable as part of aggregate income under the current income tax laws, while lump-sum payments can be treated as separate income for tax purposes and considerable amounts of it are deductible as "special retire-

ment income.” As the latter definitely receives the more favorable tax treatment, most retirees are driven to choose this form. Equitable taxation arrangements ought to be brought into effect as soon as possible, to induce the insureds to choose a pension which is most appropriate to them, rather than just be governed by tax considerations.

Moreover, it should be noted that, in the case of TQP, a special corporate tax is levied on the reserve fund, while with EPF, a tax rate of one percent is levied only on the portion of the pension benefit which exceeds the benefit level of the National Public Service Mutual Aid Associations (NPSMAA). Such tax discrimination seems unreasonable, especially as the pension reform of 1985 will result in a curtailment in the benefit level of NPSMAA to about 40 percent this coming April 1986, making any differential effectively larger. This is likely to become a main point of contention in the near future.

Furthermore, employees' contributions, in the case of EPF, are totally tax deductible regarded as a social insurance premium, while, in the case of TQPs, the employees' contribution can only be partially deductible as a life insurance premium. This inequitable difference, or rather discrimination, should also be removed as soon as possible.

2. Integration with Public Pensions

In many foreign countries, emphasis is placed on the “integrating” role of corporate pensions, a concept based on the notion that public and private retirement programs should function as a unified system. In the case of the U.S., corporate pensions guarantee a certain standard of living, shown as a percentage of the pensioner's pre-retirement income combined with the benefit receivable from the public pension.³

On the other hand, in Japan, the underlying principle behind the establishment of corporate pensions does not seem to have been yet fully determined. EPF is not an integrated system, but rather a jointed-system designed to pursue some particular interests, *i.e.*, to aid the curtailment of administration costs or to ensure workers who will remain with companies having larger benefit amounts than others.

TQP, though, is obviously a substitutional system. For example, take the case of a kind of TQP plan termed an “annuity certain.” This type is referred to as a “bridging pension” as it provides benefits for a certain period, usually for the 10 year span that corresponds to the period from retirement age to pension age for public pensions, in effect granting benefits in place of public pensions for a specific period, although the determinants of the two benefit level are irrespective of each other. Equity-principle has also been operated within the framework of each pension.

Thus, judging from this situation, it would appear that the integration concept which aims at making pensioners' income more stable, may not find root in this country for some time.

3. Portability of Vested Benefit

Portability refers to the extent that accrued pension credits are transferable from one plan to another in case of job changing. Under the present system, accrued pension credits are portable only between the following pension schemes:

- (1) EPF and Pension Fund Association, which operates a kind of “clearing house.”

³ See, Fujita, 1985c, pp. 74-79; Munnell, 1982, pp. 14-15; Allen, 1981, p. 15.

(2) between TQP plans.

Of course it is also permitted to transfer from a terminated TQP plan to a newly established EPF plan in the same company. The benefit amount to be transferred, however, is generally limited to the "substitutional" part, without extension to the income-related part. Therefore, there has been continuous debate over how to make the "income-related" part legitimately portable as well.

When the life long employment contract was the norm, there was obviously little need to pay any special attention to the portability of the corporate pension. However, with the gradual decline in this practice of life-long employment and the associated increase in labor mobility, the question of "vesting" provisions and pension portability will have to be carefully considered in the future.

4. Protection against Inflation

Automatic adjustments of the public pension in accordance with changes in the CPI, in addition to the already compulsory revision of pension amounts every four or five years, was introduced in 1973. Accordingly, for corporate pensions, the government is directly responsible to pay the substitutional part of EPF at an inflation adjusted rate. However, the additional part is not yet subject to automatic adjustment in line with inflation.

Only in a few cases do pension plans appear to make an effort to maintain the purchasing power of their annuity payments, the main ways being as follows:

- (1) Adoption of a "final-pay" formula, in which the wages during the final employment period are considered as the basis for calculating the pension amount; this enables the annuity payment to reflect the real value of the final levels of income achieved during employment.
- (2) Adoption of an "ad-hoc adjustment," in the form of an extra contribution to the pension fund by the company, with the amount being determined by some measure of the company's performance.
- (3) Adoption of an annual (or periodic) fixed-rate increase, regardless of wage or price fluctuations. This method has cost management advantages as it enables stable and predictable disbursements for the company.

5. Investment of Pension Funds

Until now, the Japanese pension market had been strictly regulated by the laws and administrative guidances of the Finance Ministry. For example, specific investment agencies, which until now have consisted of eight trust banks and twenty one life insurance companies, have had the exclusive rights to manage the investment of the reserve-fund. As a consequence, for a long time, the Japanese pension market has, in this sense, been considered less-competitive than pension markets overseas.

With the current trends towards liberalization and de-regulation, however, there has been increasing pressure for an opening up of Japan's financial business sector. As many financial firms world-wide believe that the amount of asset funds are likely to increase sharply and the pension market will reach maturity faster than in the U.S., they have been taking an increasing interest in the Japanese pension market. Given this increasing pressure from foreign companies to be allowed a share of the market, strong arguments have been put forward in favor of fully opening up the Japanese pension market to all financial institutions,

such as commercial banks, security companies and investment management companies, inclusive of foreign ones.

On account of these circumstances, the Finance Ministry has changed its traditional closed-policy and decided to implement a gradual opening up of the market. It is expected that qualified foreign firms will soon be permitted to carry out trust business. It is estimated that corporate pension fund assets will reach about 60,000 billion yen in 1995, creating increased demand for free competition to promote high returns on investment.

6. Protection Against Insolvency

Japanese corporate pensions can be voluntarily terminated without any special conditions, a very much more liberal situation compared to Western nations. This is especially so with TQP plans as there have been many cases where contracts have been terminated as new contracts commenced, whereas EPF plans have had few cases of termination as yet. It is taken for granted that as EPF plans are closely linked with public pensions, there is a limit to the extent of their voluntary termination.

The following measures have been taken explicitly for the purpose of protecting against insolvency of pension plans in Japan.

- (1) Funding should be maintained outside the company and be on a fully reserved basis in order to secure against insolvency.
- (2) Unfunded liability should be amortized for 20 years or less.

In the U.S., the 1974 Pension Reform Act (ERISA) introduced a federal pension insurance against the loss of benefits arising from the termination of a pension plan.⁴ If this kind of insurance is established in Japan, it will contribute, not only to the solution of the plan termination problem, but also to the rapid spread of private pension plans.

V. *Some Conclusions*

On one hand, lump-sum retirement allowances form a very heavy weight in the household income, on which they should be able to depend on to afford a house or establish a marital or educational fund for family members. In addition, lump-sum allowances are finally being accepted for their special tax deductions merits; firstly at the time of the transfer of the income to the reserve fund, and secondly, at the time of paying the lump-sum allowance. There is an increasing trend for pensions which combine a pension plan and a lump-sum allowance and such compound systems are expected to become the leading ones in the future pension plan and lump-sum allowance system.

Essential points to consider when contemplating an expansion or establishment of corporate pension plans are, firstly, to maintain a clear distinction between public pension plans and privately established pension plans in terms of their performance and function. It is essential to draw a line between public pension plans and corporate plans. At the same time, it is very important to make sure the public is aware that the purpose of the pension is to provide security to the aged and as such should be sufficient to enable them to be self-supporting. There should be balance and harmony between public, corporate and

⁴ See, Fujita, 1985a, pp. 79-81; Greenough, 1976, pp. 192-193.

individual pensions. On these points, national consensus should be reached as soon as possible.

Secondly, a considerable reduction in the tax rate, at least to a level comparable to that applied to lump-sum payments, should be adopted for funding and refunding. No one can deny the necessity for a lump-sum allowance, but by making established pension plans better, and thereby securing a larger range of selection for the insured — either a lump-sum payment or an annuity — the pension system will be far more flexible and effective in coping with the increasing problems that will no doubt arise as the percentage of aged in our society becomes greater in the future.

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