

“The roles and responsibilities of the Certified Pension Actuaries in Japanese corporate pension schemes: legal and practical viewpoints.”

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Summary

There are two major corporate pension schemes, the Employees' Pension Funds and the Tax Qualified Pension Plans, in Japan. The Defined Contribution Pension plan Act and Defined Benefits Corporate Pension Act were passed the Japanese National Diet in June 2001. The corporate pension schemes played and will play significant role in post-employment or retirement age life with appropriate provisions. The Certified Pension Actuary system was introduced in 1988 legally, and I would review the Certified Pension Actuaries contribution to the corporate pension schemes operations and development. And I will study the roles and responsibilities of the Certified Pension Actuaries from now on.

“Les rôles et responsabilités des retraites garanties actuariées, sur les systèmes de retraite d’entreprise au Japon : points de vue légal et pratique”

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Resume

Il y a 2 principaux systèmes de retraite d’Entreprise au Japon : les fonds de retraite des employés et les plans de retraite soumis à l’impôt. La loi sur le Plan de retraite qualifié et la loi sur les Bénéfices définis des plans de retraite d’entreprise sont conclus en juin 2001 au parlement Japonais. Les systèmes de retraite d’Entreprise ont joué et vont jouer un rôle significatif dans le post-emploi ou la période de vie en retraite avec ressources appropriées.

Le système de retraites actuariées a été institué par voie légale en 1988. Je vais définir la contribution des retraites garanties actuariées sur la mise en application et le développement des retraites d’Entreprise. J’étudierai également les rôles et responsabilités des retraites garanties actuariées à partir de maintenant.

I. Purpose of the Certified Pension Actuaries System

Tax Qualified Pension Plans (TQPP), which were introduced by the tax reform in 1962, are often used by Japanese employers. National Tax Administration Agency of Japan orders actuaries who are the fellow of the Institute of Actuaries of Japan to check the plan for actuarial basis. The checking viewpoints are not for securing the participant rights but for conforming the maximum deductible limit. Trust banks and Life Insurance companies played major role for progress of TQPP. The actuaries contribute it as employees in those companies.

The National Pension Fund (NPF) system that is introduced in March 1991, needs the Certified Pension Actuaries for reviewing the actuarial soundness. Because of small number of plans and similar plan design, the Certified Pension Actuaries don't play much role for operation of the NPF compare to the role of the Employee's Pension Fund.

The Employee's Pension Fund (EPF) system was established to provide ample financial security to retired employees in the private sector in 1966. The Certified Pension Actuaries System establishment was included in the amendment bill of Employees Pension Law passed the Diet in March 1988, in which the Certified Pension Actuary system encoded article 179-2. So far, the Certified Pension Actuaries play important role for securing the participant right for benefits and checking the actuarial soundness of the plan. In the future, the Certified Pension Actuaries would be involved in the operation not only of the EPF system but also of the Defined Benefits Corporate Pension system. I review the Certified Pension Actuaries system mainly through the operation of the EPF system.

The EPFs administration by the Government was deregulated in order to make it possible for the corporate pension plans to take the initiatives meeting the needs of beneficiaries and participants. The purpose of the Certified Pension Actuaries System is to assure that the financial operation of the EPFs should be based on the sound actuarial basis and secure the participants right for benefits. In June 1996, more deregulations including market value system were introduced in the EPF operations and the Appointed Certified Pension Actuaries System started. The Appointed Certified Pension Actuaries System aims for continuous and early checking on the EPFs' financial status. The Appointed Certified Pension Actuaries System is guided by a notice from the Director of Pension Bureau to the Governor of Prefecture.

The regulations on CPA are as follows

a. The Employees Pension Insurance Law

Article 130-3 The EPF must be managed on the basis of proper actuarial science

Article 176-2 (a) The actuarial materials, to be regulated by the Ministry of Health, Labor and Welfare ordinance, reporting to the Minister of Health, Labor and Welfare from an EPF or Employees Pension Fund Association must be confirmed and signed by a CPA.

(b) A CPA is a person who has enough actuarial experience and knowledge and meets conditions regulated by the Ministry of Health, Labor and Welfare ordinance.

b. The Employees Pension Fund Rule(Ordinance)

Article 75 (a) The actuarial reports to be regulated by the Ministry of Health ,Labor and Welfare ordinance indicated in the Article176-2 of Employees Pension Insurance Law are as follows.

1. A report on the calculation of contribution rate at the establishment of an EPF
2. A report on the calculation of contribution rate at the change of benefit or contribution
3. A report on the Liability reserve and Minimum funding standard reserve, and calculation of contribution at the merger of EPFs
4. A report on the Liability reserve and Minimum funding standard reserve, and calculation of contribution at the division of EPFs
- 4-2. A report on the Liability reserve and Minimum funding standard reserve, and calculation of contribution at the removal of member companies of EPFs
5. A report on the amount transferring to the PFA at the dissolution of EPFs (A report on the amount returning to the State Pension at the dissolution of PFA)
6. Actuarial valuation report
7. A report on the calculation of contribution rate at the change of benefit or contribution
8. A report on the calculation of contribution rate of subcontracted part
9. A report on the calculation of contribution rate of subcontracted part at the establishment of EPFs
10. (deleted)
11. A report on the transfer from pension account to administrative account
12. A report on the Liability reserve and Minimum funding standard reserve at the settlement of EPFs or PFA

13. A report on the management of surplus of EPFs or PFA
14. A report on the change of benefits
15. A report on the calculation of contribution rate at the change of benefits
16. A report on the transfer from pension account to administrative account at PFA

(b) CPAs must attach their opinions with reports from items 1 to 4-2, 6, 7, 11, 12 ,14 and 16.

National Pension Law

Article 128-2 The NPF must be managed on the basis of proper actuarial science

Article 139-2 The actuarial materials, regulated by the Ministry of Health, Labor and Welfare ordinance, reporting to the Minister of Health, Labor and Welfare from an NPF or National Pension Fund Association must be confirmed and signed by a CPA regulated by the Article of 176-2 Employees Pension Law.

Defined Benefit Corporate Pension Act

Article96 The employees and Pension Funds must design the benefits, calculation of contribution rate and settlement on the basis of proper actuarial science

Article97 The actuarial materials, regulated by the Ministry of Health, Labor and Welfare ordinance, reporting to the Minister of Health, Labor and Welfare from an employer or a Pension Fund must be confirmed and signed by a CPA regulated by the Article of 176-2 Employees Pension Law 176-2

The notice from the Director of Pension Bureau to the Governor of Prefecture concerning to the Appointed Certified Pension Actuaries System is as follows.

The EPFs are to appoint a Certified Pension Actuary who is assigned with following affairs at its establishment and file his/her name and company to the MHLW.

1. Confirmation, signature and comment to said 3-8-(2) materials
2. Confirmation, signature and comment to said 4-5-(2) materials
3. Continuous diagnosis and comment

II. The Certified Pension Actuary's current situations in Japan

The actuarial services are provided to the EPFs by trust banks, life insurance companies and government designated actuarial firms. The active Certified Pension Actuaries are belongs to

these companies. It is usual that the actuaries become Certified Pension Actuaries when he/she is working for those companies. But after he/she becomes Certified Pension Actuaries, he/she may change or leave the company. The Certified Pension Actuaries distribution by the companies group (table 1) and its change in number (table 2)

Table 1	Number of Certified Pension Actuaries Distribution by the company group	Number of EPFs distributions by Appointed Certified Pension Actuaries' company group
Company group	As of April 2000	As of December 1999
Trust banks	125	1,330
Life insurance companies	112	482
Government Designated firms	25	44
Other company or Individuals	53	0
Total	315	1,856

Table 2	total	Trust banks	Life insurance companies	Government Designated firms	Other company or Individuals
Sep.1988	102	46	48	7	1
Oct.1988	107	46	48	12	1
Jan. 1989	109	47	49	12	1
Jul. 1989	111	48	49	12	2
Jul. 1990	128	50	58	12	8
Jul. 1991	143	54	66	16	7
Jul. 1992	149	57	68	16	8
Aug. 1993	171	65	77	17	12
Apr. 1994	183	68	82	19	14
Apr. 1995	204	77	89	25	13
Jun. 1995	206	75	88	26	17
Apr. 1996	218	80	89	28	21
May. 1997	235	86	99	27	23
Dec. 1997	243	88	101	30	24
Jul. 1998	265	103	108	24	30
May. 1999	287	113	110	25	39
Oct. 1999	294	116	109	23	46
May. 2000	315	125	112	25	53
Nov. 2200	320	127	112	28	53
Apr. 2001	333	126	115	23	69
Jul. 2001	335	128	115	23	69

The reason why the trust banks and life insurance companies undertake many EPFs actuarial services is the historical one. Only the trust banks and life insurance companies could undertake the actuarial services until 1986. The government designated firms started actuarial services to the EPFs with the condition of the company's Certified Pension

Actuaries in 1986. The EPFs have not often changed its actuarial service company. Accordingly the Certified Pension Actuaries in the trust banks and life insurance companies are appointed by several EPFs.

The EPFs have no obligation to appoint a Certified Pension Actuaries within the same company which undertake their actuarial services. It is convenient for the EPFs to a Certified Pension Actuaries within the same company of their actuarial services. Unless the Certified Pension Actuaries have detail informations for confirming the actuarial reports, he/she asks the EPF to get the informations from the company which the EPFs' actuarial service is operated. If the Certified Pension Actuaries is working for the same company which the EPFs' actuarial service is operated, it is efficient to get the detail informations. A few EPFs appoint the Certified Pension Actuaries outside of the company which the EPFs' actuarial service is operated. Confirming the actuarial reports requires the Certified Pension Actuaries quit a lot time and work. Besides the appointed certified pension actuarial job, many Certified Pension Actuaries are involved in the other actuarial assignment of EPF, TQPP and retirement benefits obligation valuation job. Various actuarial jobs keep the high quality of the Certified Pension Actuaries.

Recently there are many Certified Pension Actuaries working for non-actuarial firms and some Certified Pension Actuaries don't belong the company. (Table 2) Those Certified Pension Actuaries are not easy for keeping the most contemporary informations relating to the EPF actuarial affaires. I don't think that all the Certified Pension Actuaries working for trust banks, life insurance companies and government designated firm working for EPFs' actuarial section. It is not enough number of Certified Pension Actuaries.

Table 3	Number of Certified Pension Actuaries Distribution by the age
Age	As of Sept. 2001
60 and more	62
50 and more and less than 60	73
40 and more and less than 50	75
30 and more and less than 40	124
Total	334

Table 2 and Table 3 indicate that some of the Certified Pension Actuaries would not work for EPFs actuarial services. That means the active Certified Pension Actuaries should be increased more than the number of retiring Certified Pension Actuaries.

III. Future of the Certified Pension Actuaries responsibilities

The Certified Pension Actuaries will play more important roles and responsibilities both in the EPF and Defined Benefit Corporate Pension Plan. First, more than the confirmation of the actuarial report and explanation to the pension fund operator, the Certified Pension Actuaries should supply actuarial information both pension fund operator and other interested party. Second, the Certified Pension Actuaries themselves and the Japanese Society of Certified Pension Actuaries (JSCPA) will improve and keep their quality.