

2016 Expected Reform of Japanese DC Code and Its Implications for the Future DC Prevalence in Japan as Contrasted to US 401k

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Speaker



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Tomohiro Kawaguchi is a Consulting Actuary with experiences of actuarial valuation of retirement benefit liability, retirement benefit plan design, and M&A due diligence. He is also specializing in advising clients on pension issues in various countries in contexts of cross-border due diligence and post merger integration.

He received a master's degree in Engineering from Keio University. He is an Associate of the Society of Actuaries (ASA) as well as Chartered Enterprise Risk Analyst (CERA). Also he is an Associate of the Japanese Society of Certified Pension Actuary (AJSCPA).

Expected Takeaways



Landscape of DC



Comparison with 401k

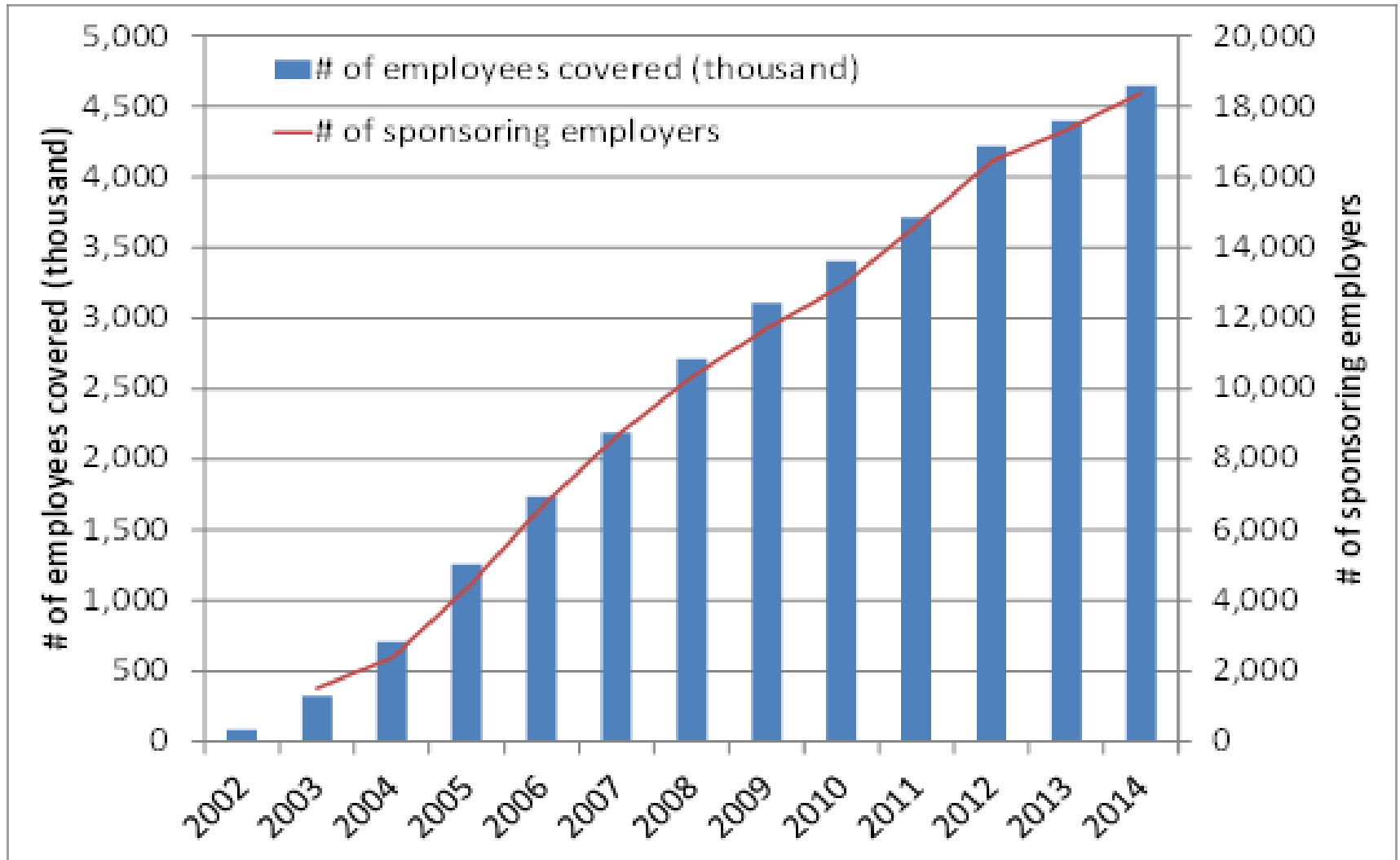


Futuristic DC

Japanese DC Profile

- Since 2001
- Corporate-Sponsored vs. Individual-Based
- Contribution cap

Japanese DC Prevalence (1/2)



Source: Ministry of Health, Labor and Welfare

Japanese DC Prevalence (2/2)

- 4.5 million people covered by corporate-sponsored DC
 - 0.2 million people covered by individual-based DC
-

- 68 million people could be covered
 - 18 million people self-employed (“Class 1 insured”)
 - 20 million people employed (“Class 2 insured”)
 - 10 million people spouses of Class 2 (“Class 3 insured”)

... less than 1% per year penetration rate

Proposed Changes (1/2)

Current Coverage

Class 1 insured

- all

Class 2 insured

- private companies' employees with no pension scheme

Class 3 insured

- none



New Coverage

Class 1 insured

- all

Class 2 insured

- all

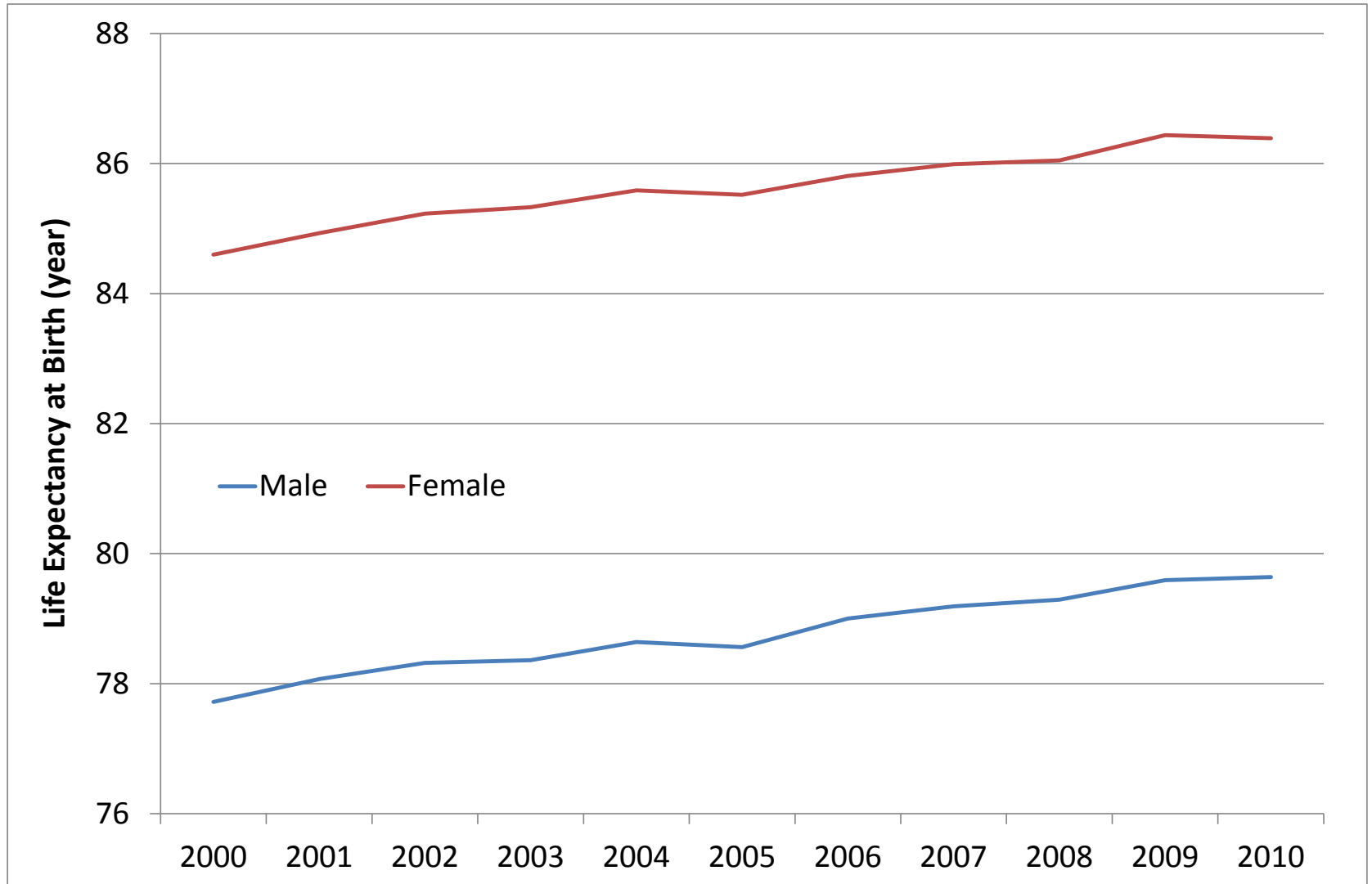
Class 3 insured

- all

Proposed Changes (2/2)

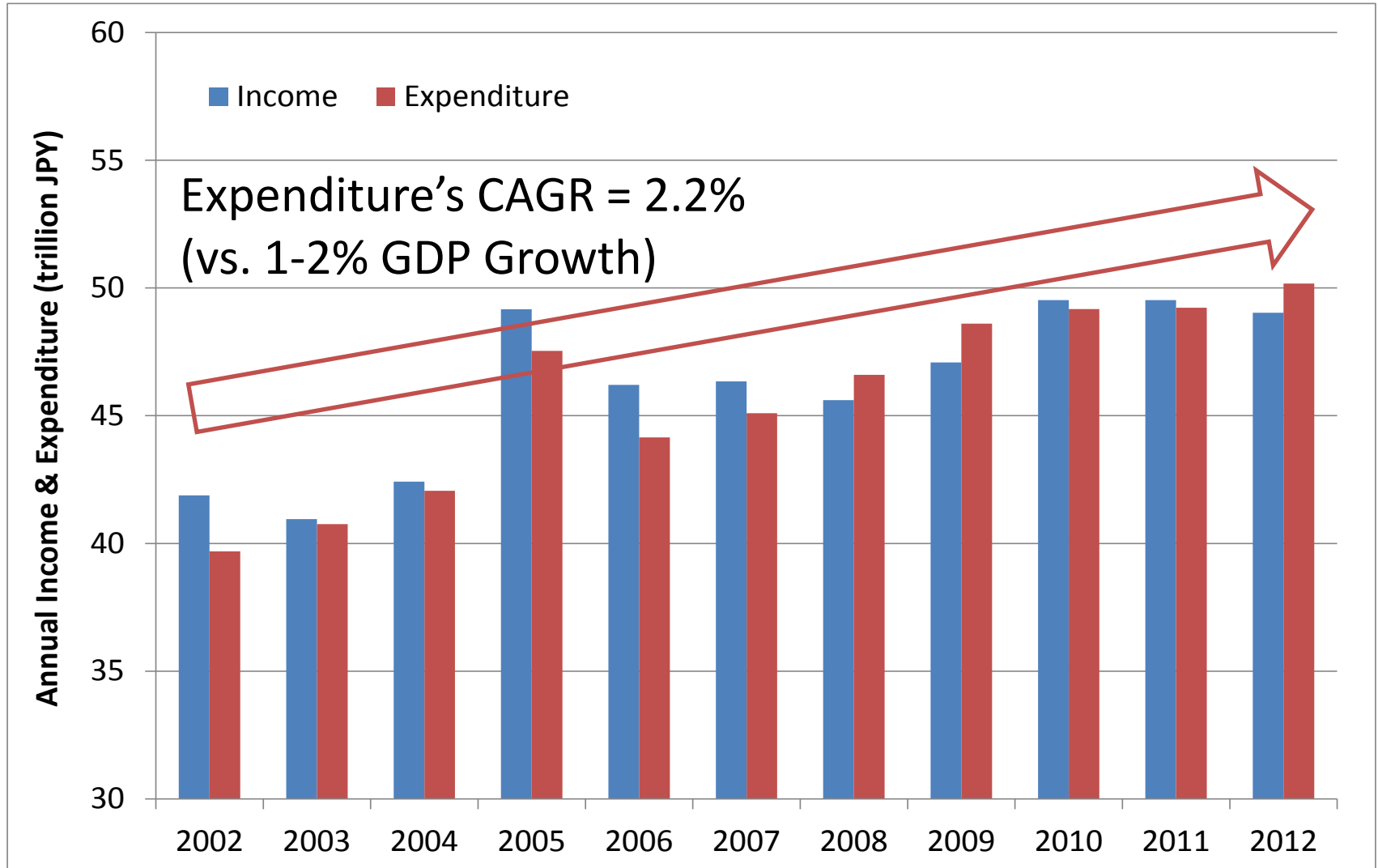
- Small sized companies will be encouraged to pay contributions to individual DC instead of sponsoring corporate-sponsored DC
- DC assets portability will be enhanced
- Contribution cap will be redefined on an annual basis

Japanese's Longevity



Source: Ministry of Health, Labor and Welfare

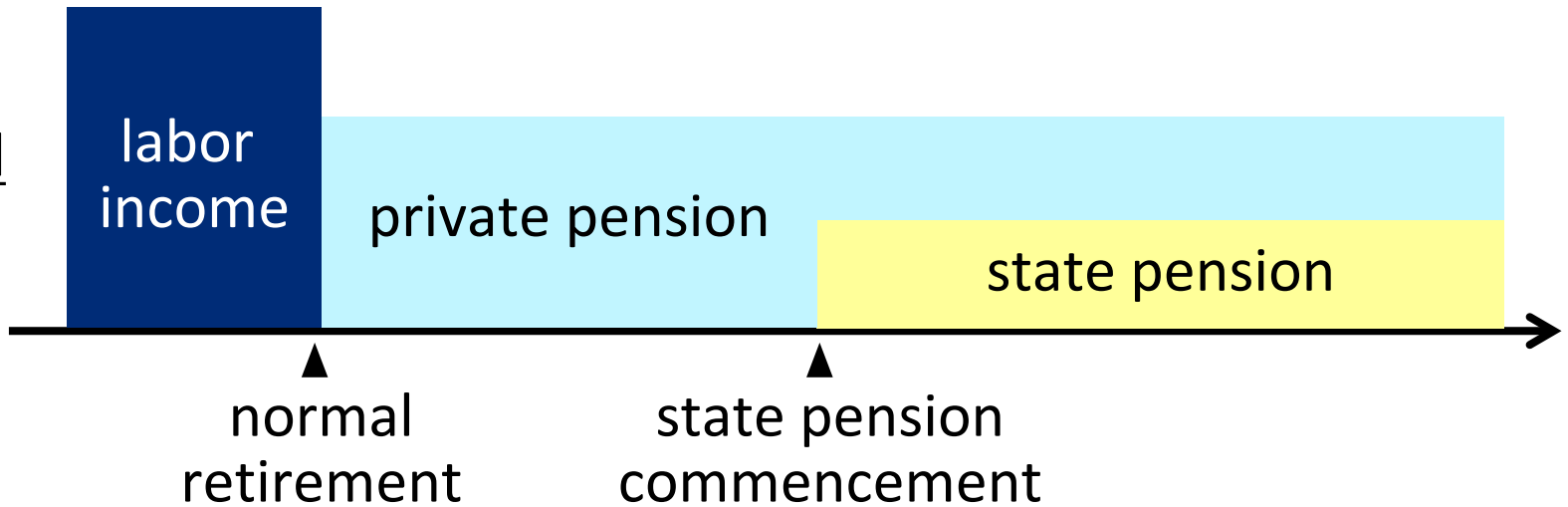
State Pension's Difficulty



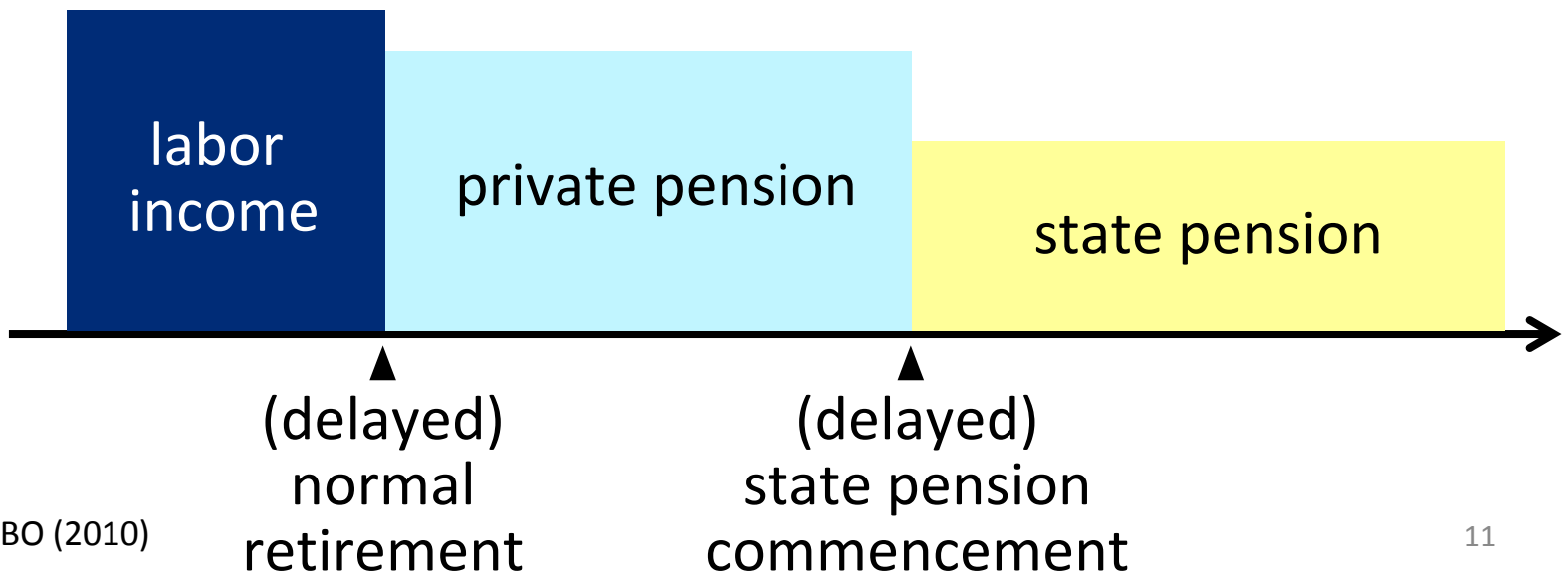
Source: Ministry of Health, Labor and Welfare

“Horizontal” vs. “Vertical”

horizontal



vertical

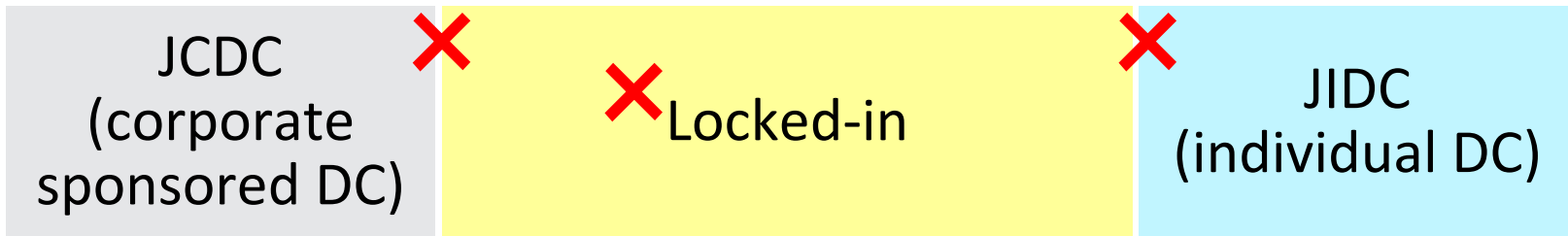
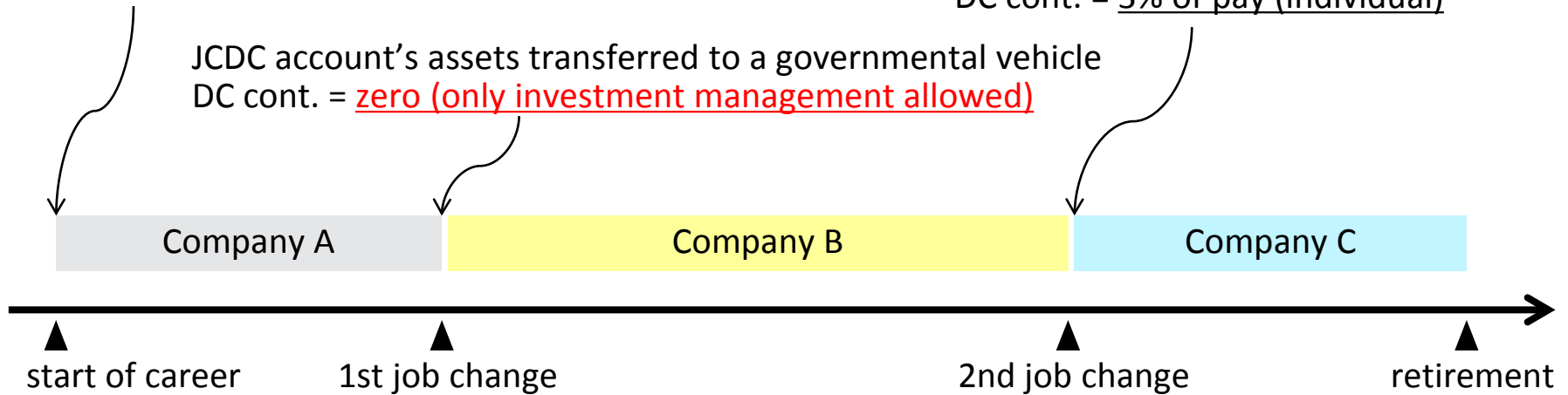


How we use DC currently

JCDC account set up by Company A
DC cont. = 5% of pay (employer)

JIDC account set up on one's own
and transfer JCDC account's assets
DC cont. = 3% of pay (individual)

JCDC account's assets transferred to a governmental vehicle
DC cont. = zero (only investment management allowed)



Issues with frequent black-out / transfer...

A New Concept



Bank
Account



Individual DC
“Management”
Account



Security
Transaction
Account

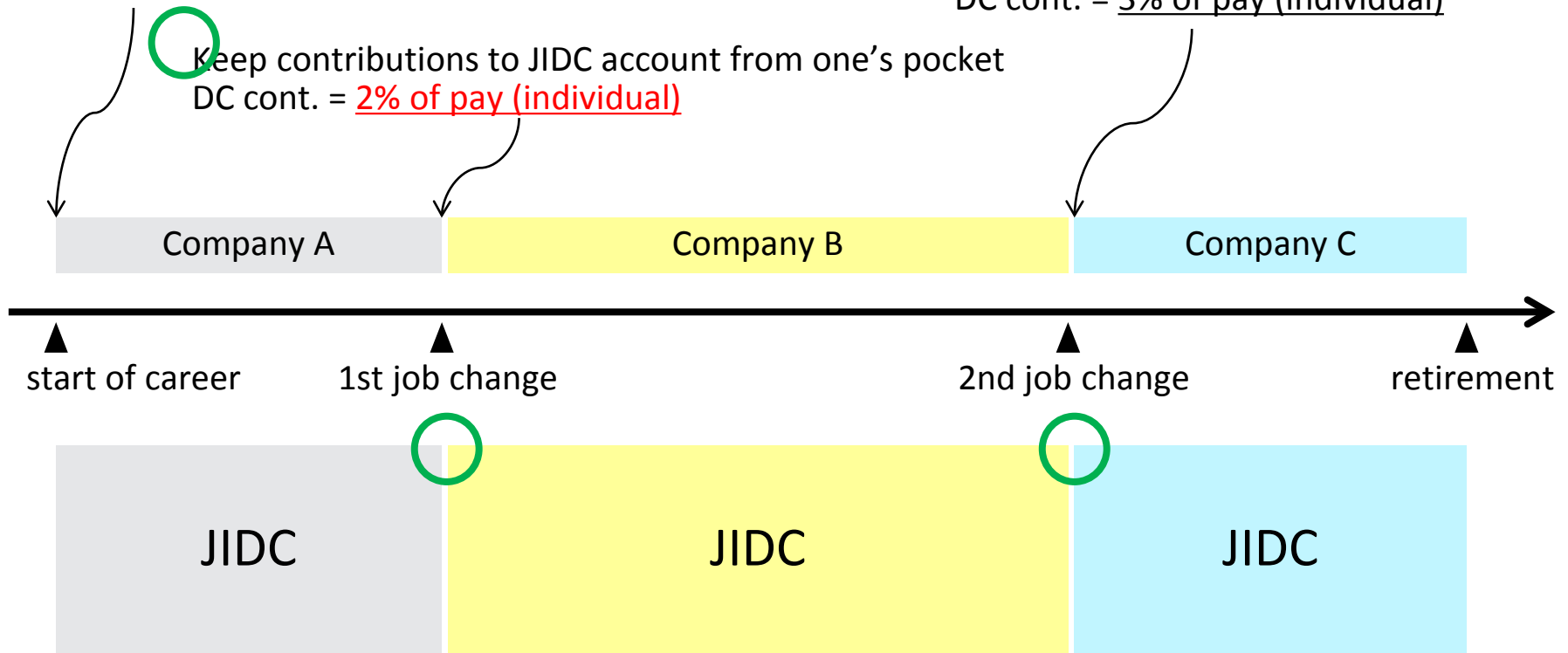
...later called
Retirement Wealth Account?

How we will use DC in the future

JIDC account set up on one's own
DC cont. = 5% of pay (employer)

Keep contributions to JIDC account from one's pocket
DC cont. = 3% of pay (individual)

Keep contributions to JIDC account from one's pocket
DC cont. = 2% of pay (individual)



Seamless retirement wealth management

As compared to US 401k...

| Item | Japanese DC | US DC (401k) |
|---------------------------|-------------------------------|--------------------------------|
| History | Since 2001 | Since early 1980's |
| Type | ER cont. based | EE cont. based |
| Cont. Cap | 5.5 k USD per year* | 17.5 k USD per year |
| Portability | Encouraged (less flexible) | Encouraged |
| Portability NEW | Encouraged | Encouraged (less efficient) |

* 1USD = 120 JPY

Wrap-up

1 Japanese DC has been growing, unsatisfactorily

2 Individual-based DC will be encouraged

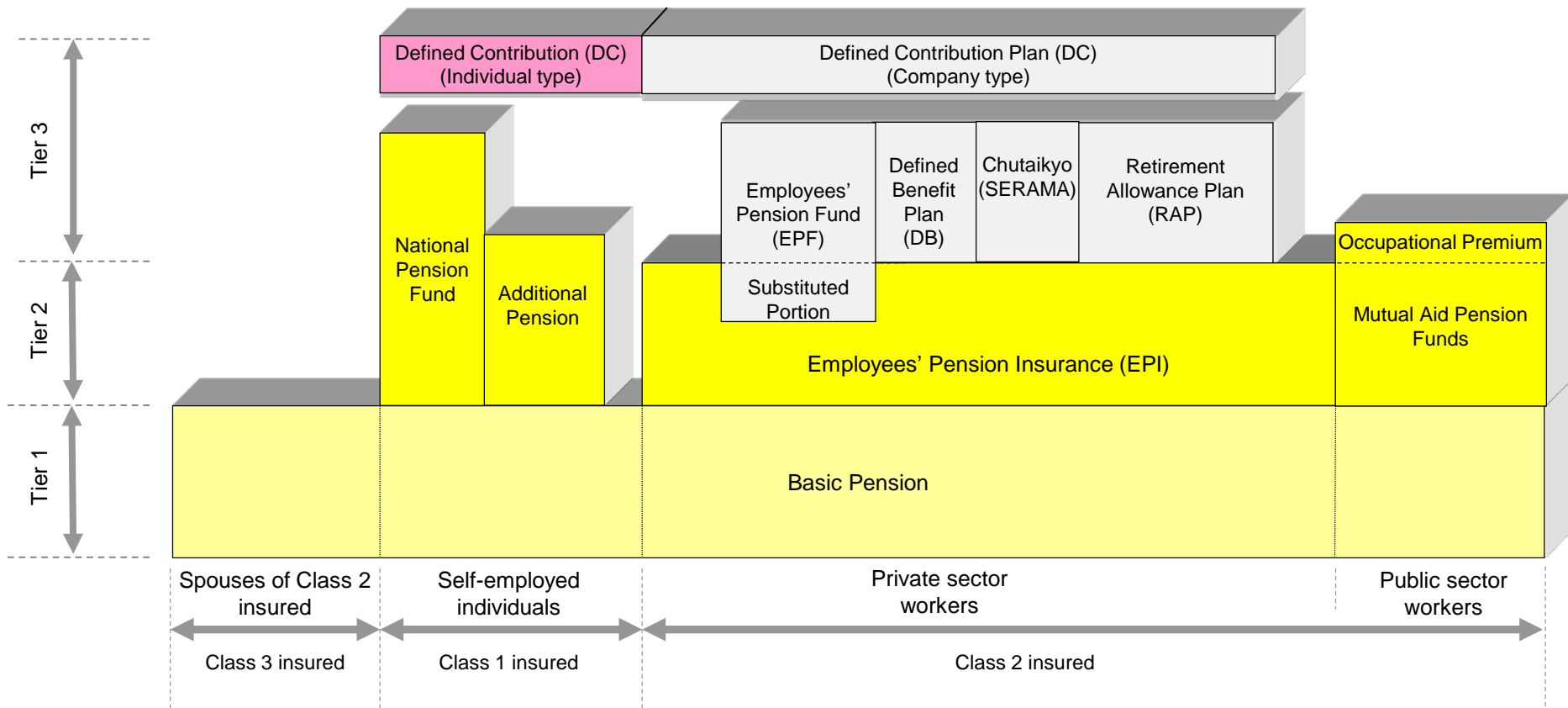
3 Potentially better than US 401k...?

Questions?

References

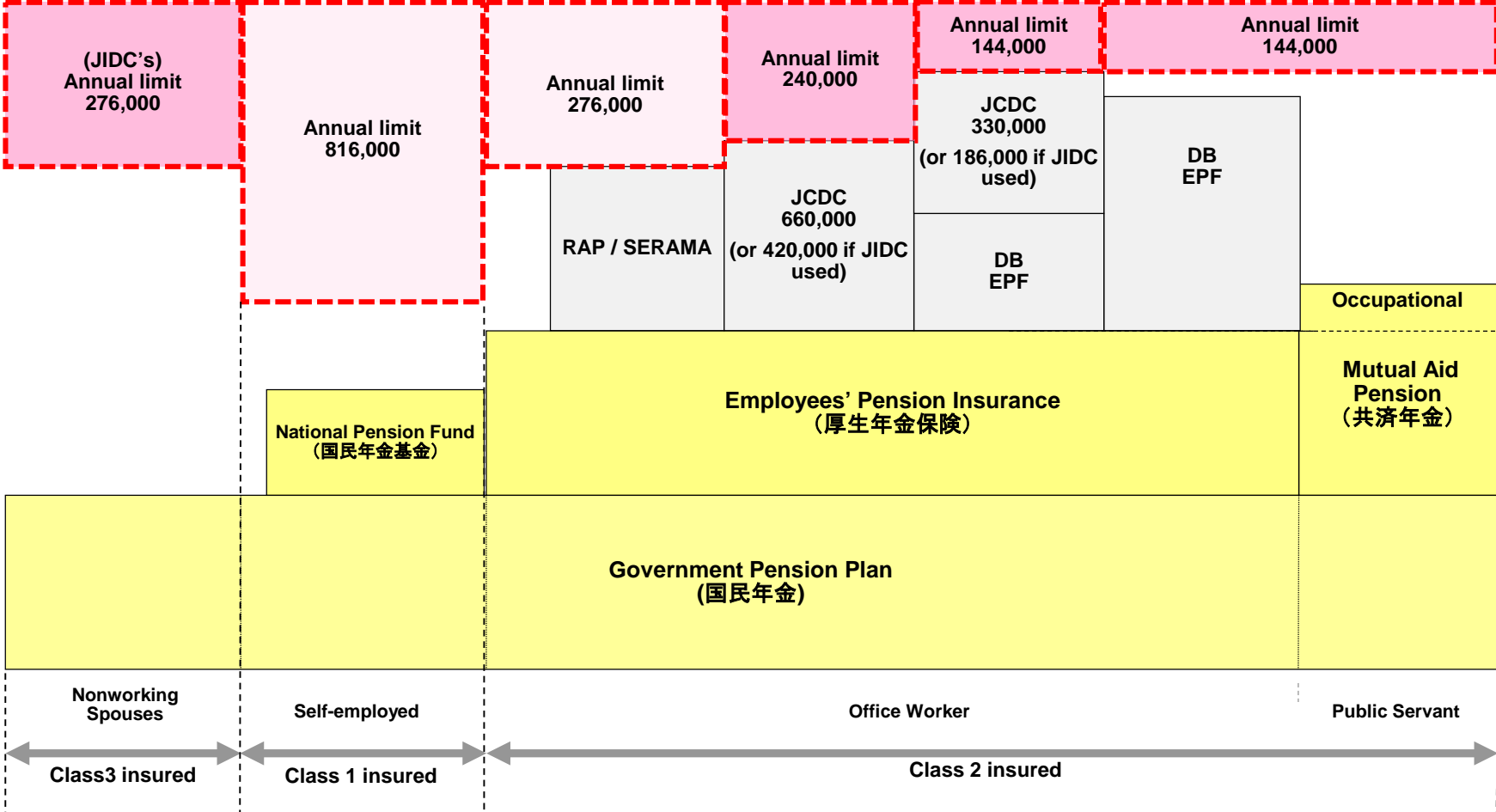
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- National Pension Fund Association, Overview of Japanese Individual Defined Contribution Plan (<http://www.npfa.or.jp/401K/status/>)
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Japanese Pension Overview



DC Coverage

(Unit: JPY)



 : Individual DC

 : New Eligible