

# **The employment situation of the elderly in Japan and a study on the role of corporate pension plan**

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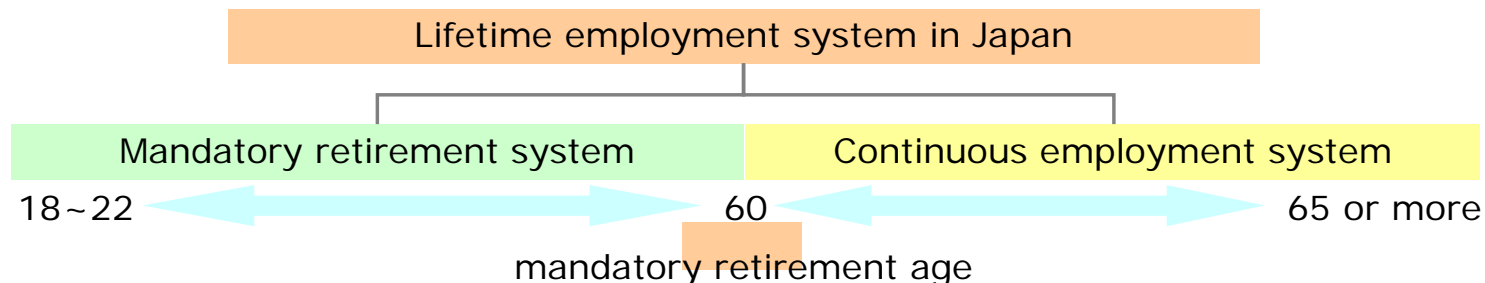
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# 1. Introduction

## (1) The mandatory retirement system and the continuous employment system in Japan

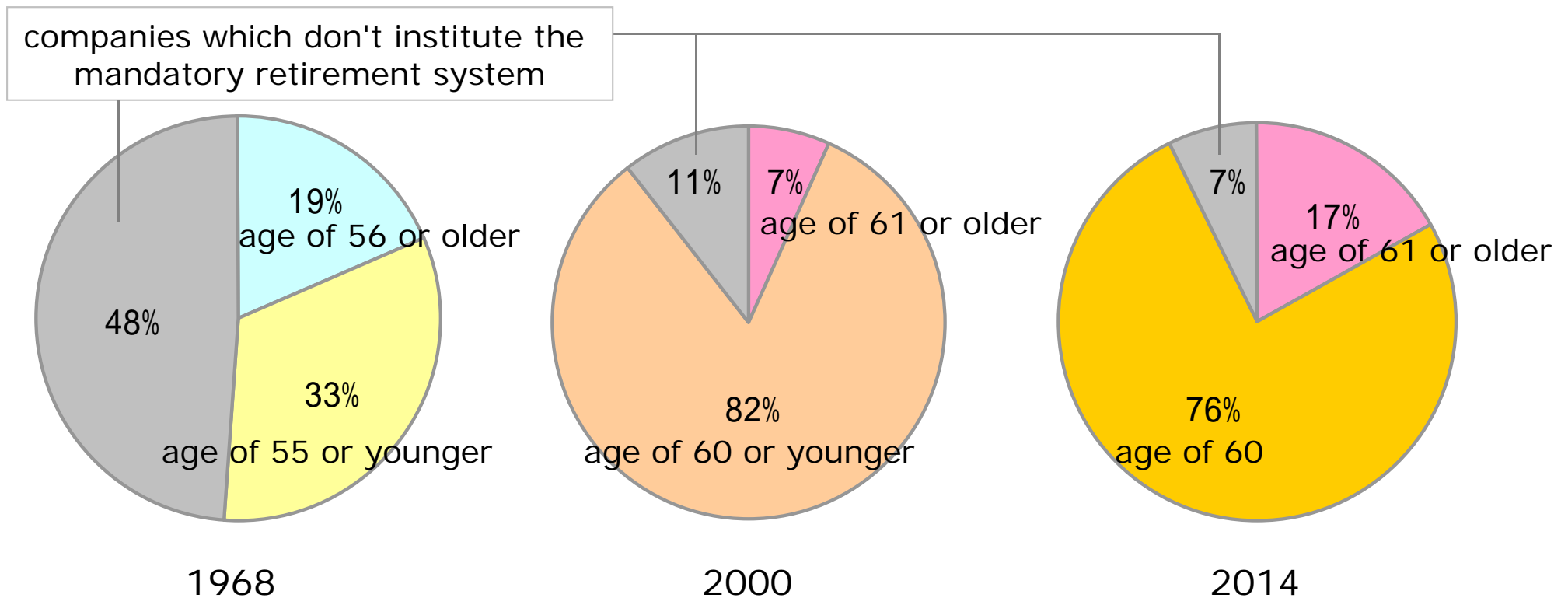
- Most companies in Japan have introduced the mandatory retirement system and the continuous employment system.
- In the mandatory retirement system, employment contracts are automatically suspended when employees reach a certain age (the mandatory retirement age). Note, however, that the definition of these systems varies from country to country.
- In the continuous employment system, employees who reach the mandatory retirement age and wish to continue working (and compromise the employment conditions) will be entitled to be reemployed.



# 1. Introduction

## (2) The change of the mandatory retirement age

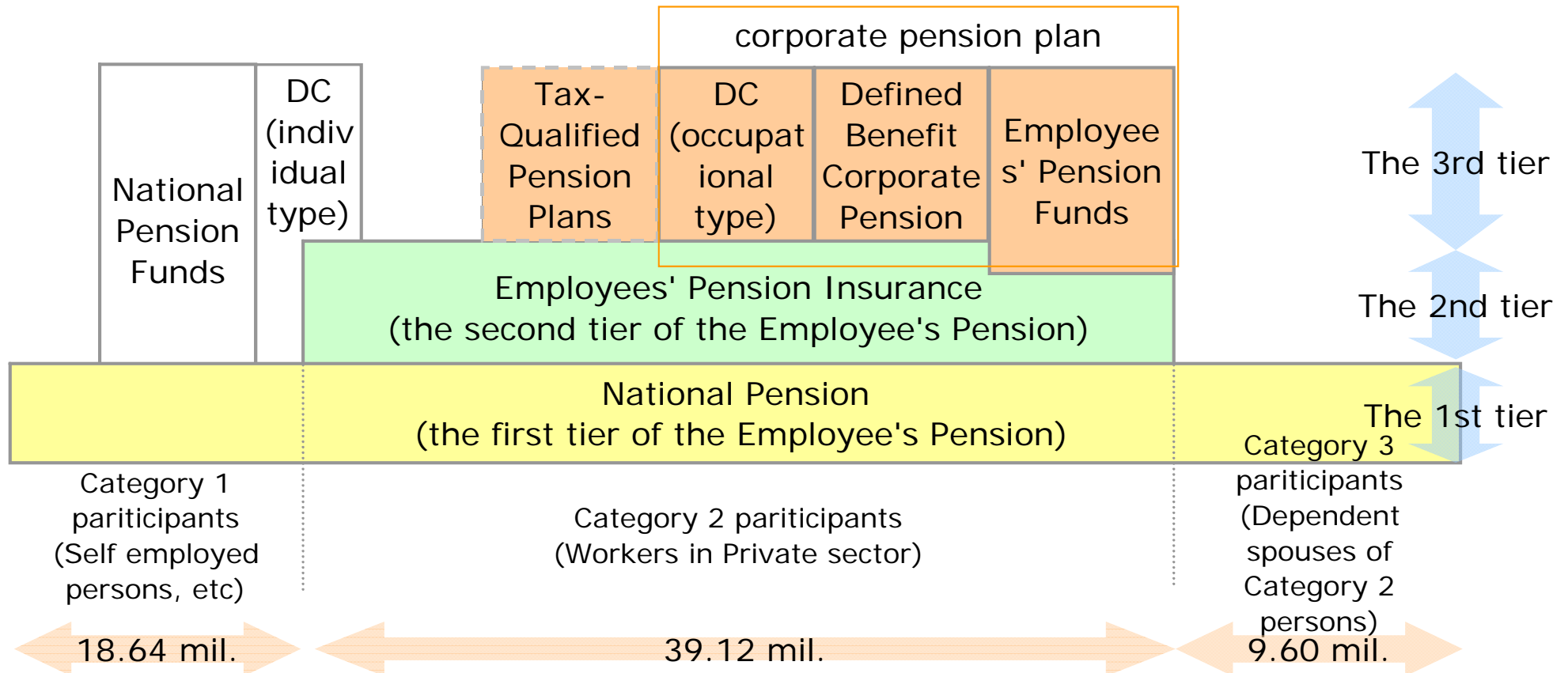
- Since 1960s, the numbers of companies which institute the mandatory retirement system have increased.
- Although companies which adopt mandatory retirement age of 65 have increased, the current majority age is 60.



# 1. Introduction

## (3) Pension system in Japan

- The first tier (flat benefit for all Japanese) and the second tier (earnings-related benefit for salaried employees in both public and private sectors) are both public pension systems.
- Occupational pension plans are provided as the third tier.



Source: Ministry of Health, Labour and Welfare's website

# 1. Introduction

## (4) The mandatory retirement age and the starting age for the Employees' Pension

	the mandatory retirement age	the pensionable age for the Employees' Pension (the first tier)		the pensionable age for the Employees' Pension (the second tier)	
		for male	for female	for male	for female
1960s	55 is the most	55 ~ 58	55	55 ~ 58	55
1986	60 (the effort obligation)	60	55	60	55
1998	60 (the obligation)	60	58	60	58
2000	65 (the effort obligation), the exemption exists	60	60	60	60
2013	65 (the obligation)	65	63	61	60
2015		65	64	61	60

In accordance with the Revised Law Concerning Stabilization of Employment of Older Persons enforced in April 2013, companies are obligated to comply with any one of the

- Introduction of a continuous employment system
- Raising the mandatory retirement age
- Abolition of the mandatory retirement system

Source: Ministry of Health, Labour and Welfare's website

# 1. Introduction

## (5) Revisions of corporate pension plans in raising the mandatory retirement age

➤ In the 1990s, many companies reviewed their retirement benefit plans to control the raising financial burden due to the changes in the employment system.

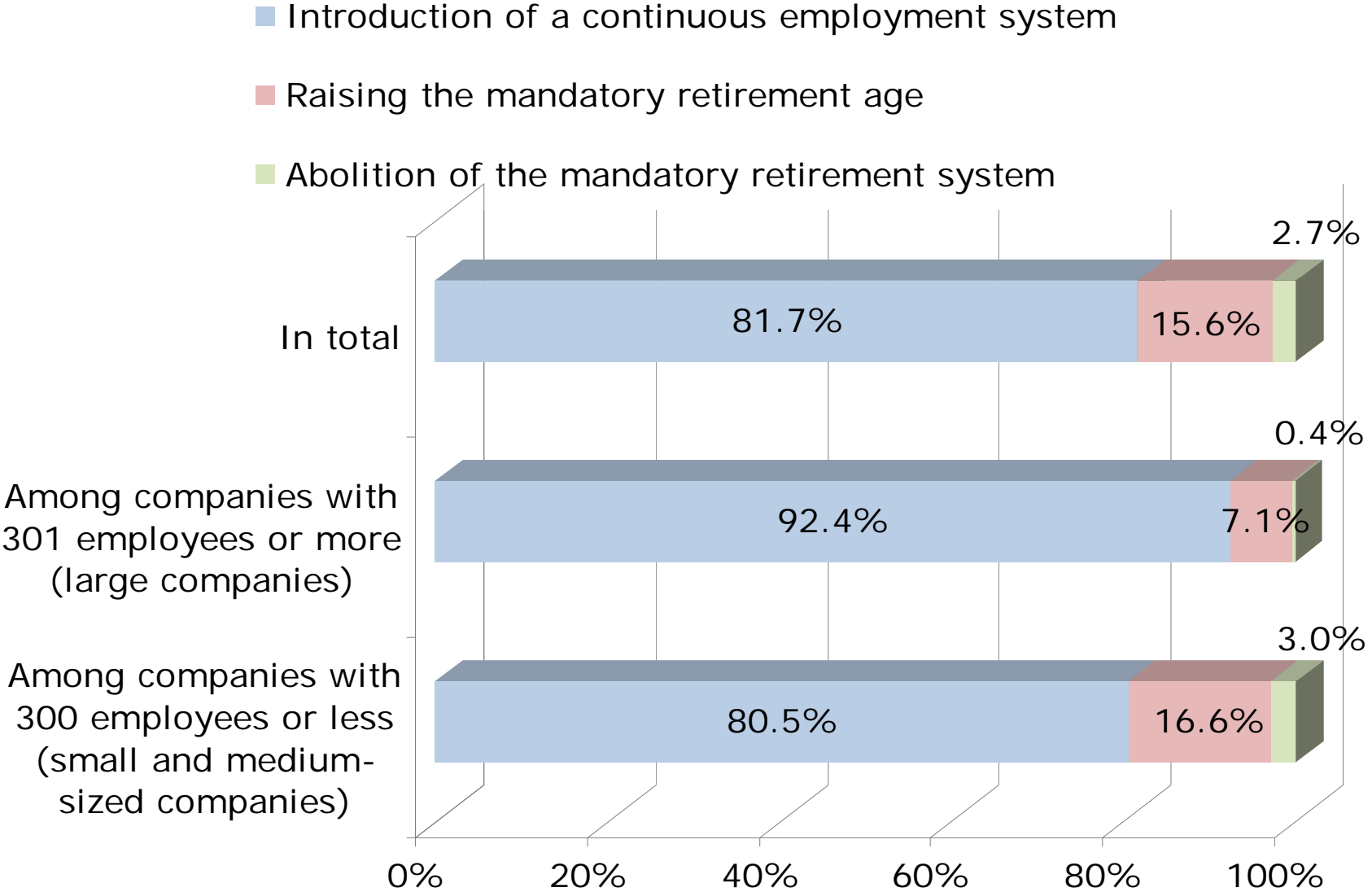
For example, as follows:

- freezing the amount of retirement benefit at the prior mandatory age
- revision of the benefit design
- revision of the pension payout period and the interest rate used to convert lump-sum benefits to annuities

➤ The similar revisions in each company's employment contracts, such as wages and post-employment benefits, are expected to the recent regulatory change of the mandatory retirement age from 60 to 65.

# 2. Current status of the employment situation of the elderly and corporate pension plan

## (1) Breakdown of Employment Security Measures (by company size)

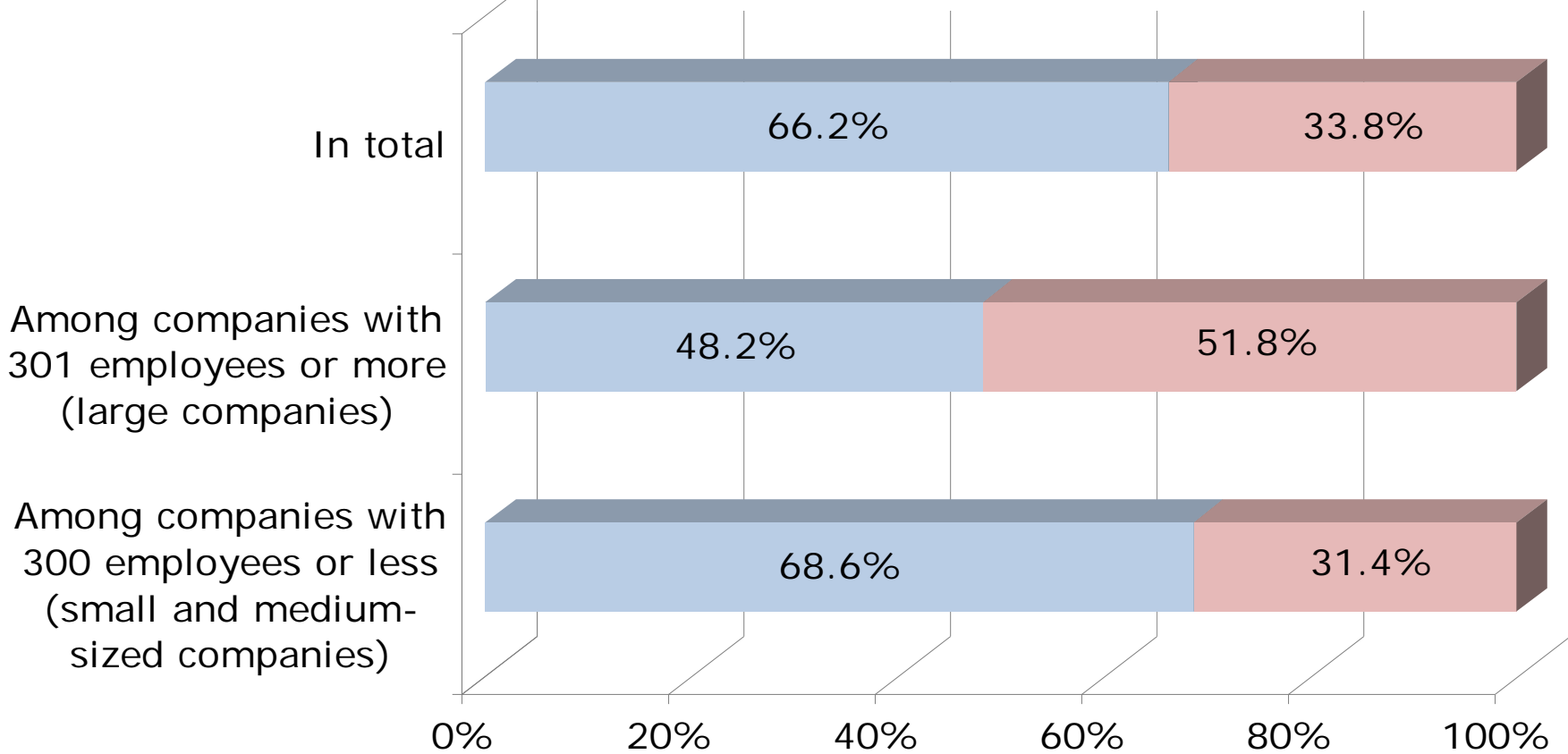


Source: "The employment situation of the elderly (2014)" Ministry of Health, Labour and Welfare's

# 2. Current status of the employment situation of the elderly and corporate pension plan

## (2) Breakdown of continuous employment systems (by company size)

- (measure A) Employees who wish to continue working can work up to age of 65 or older
- (measure B) Employees who wish to continue working and meet requirements of the labor-management agreement can work up to age of 65 or older

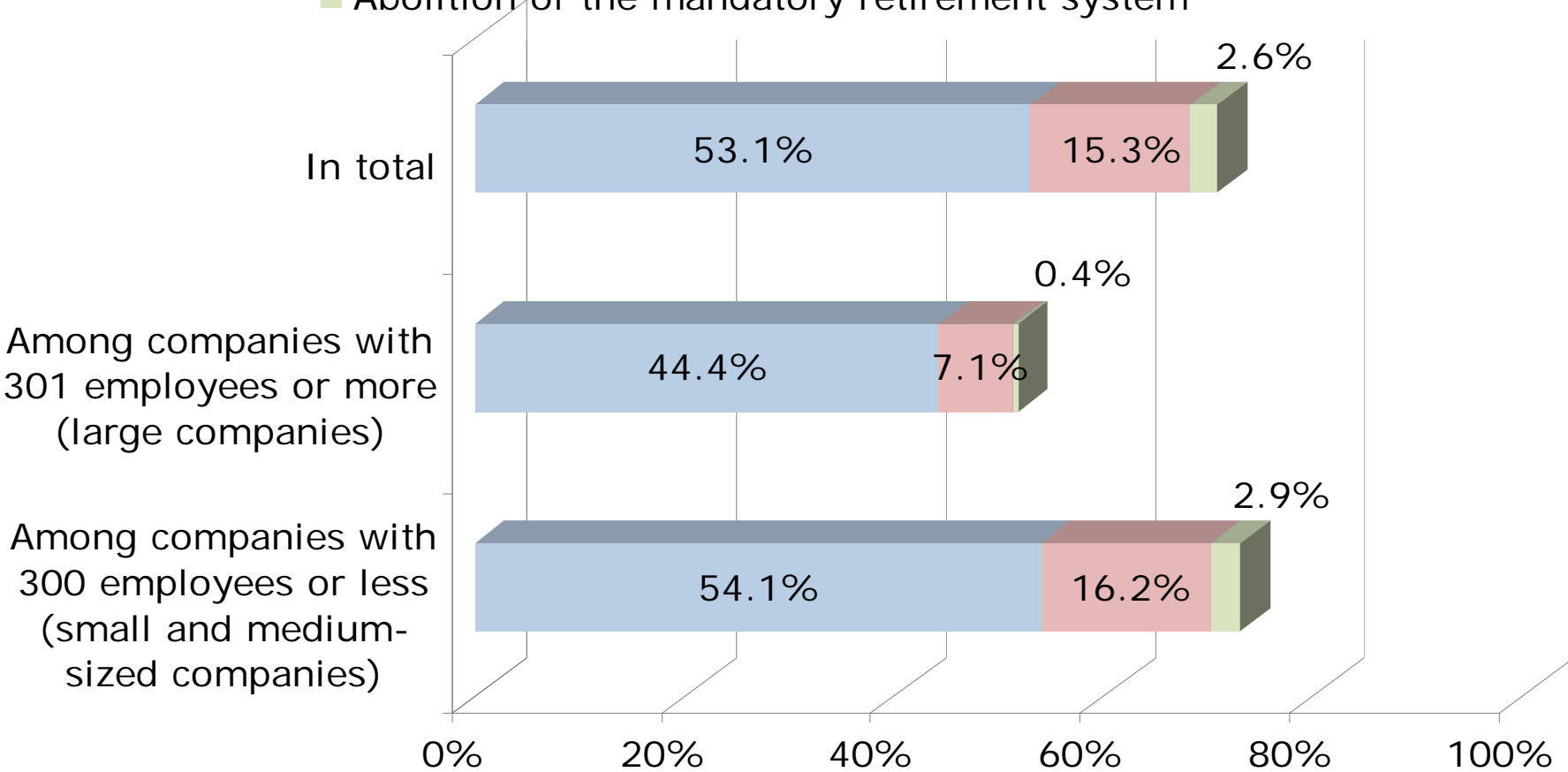


Source: "The employment situation of the elderly (2014)" Ministry of Health, Labour and Welfare's

## 2. Current status of the employment situation of the elderly and corporate pension plan

### (3) Breakdown of companies where employees can work up to age of 65 or more (by company size)

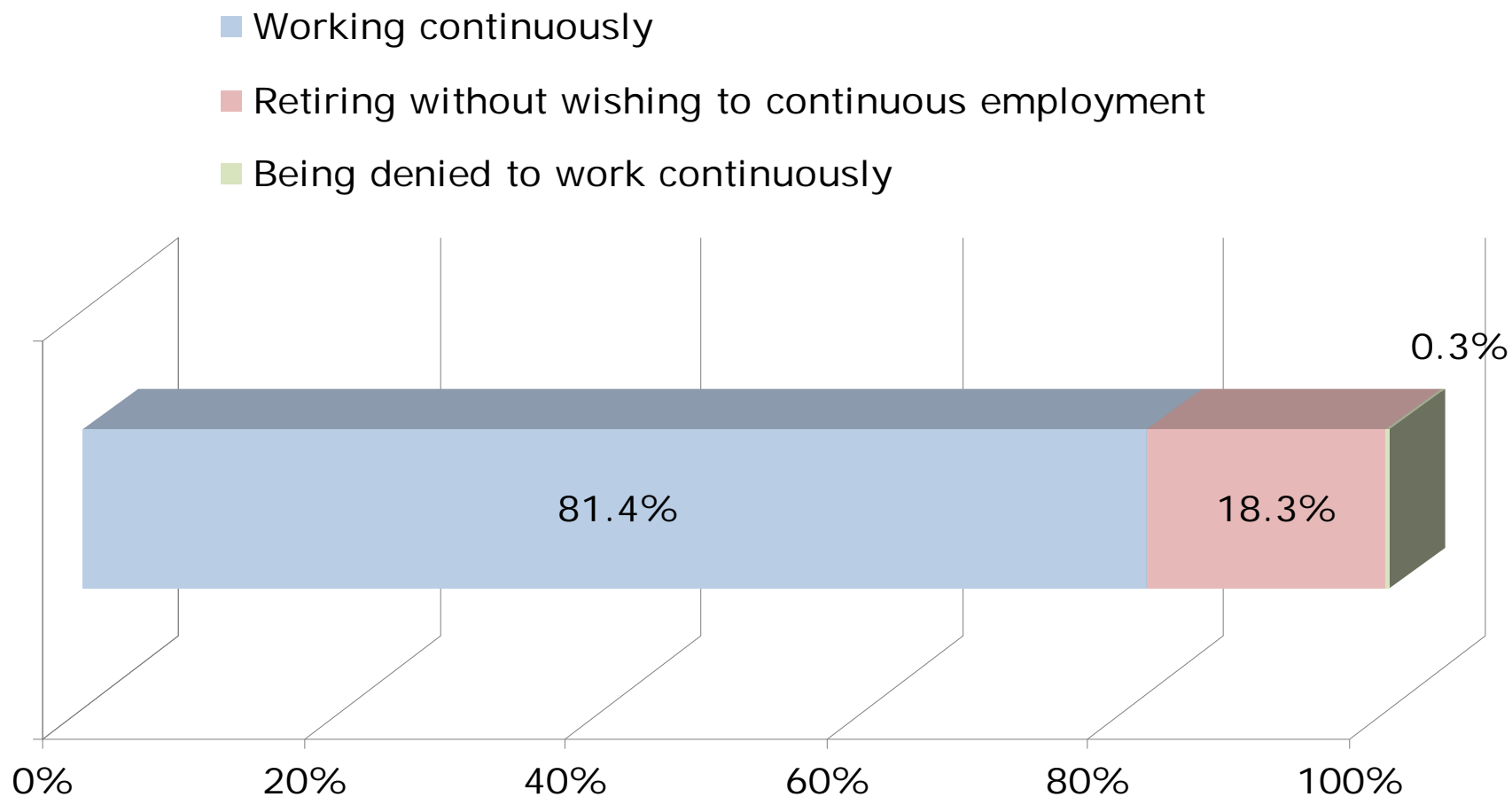
- Introduction of a continuous employment system
- Raising the mandatory retirement age
- Abolition of the mandatory retirement system



Source: "The employment situation of the elderly (2014)" Ministry of Health, Labour and Welfare's

## 2. Current status of the employment situation of the elderly and corporate pension plan

### (4) Trends of employees who reached the mandatory retirement age of 60

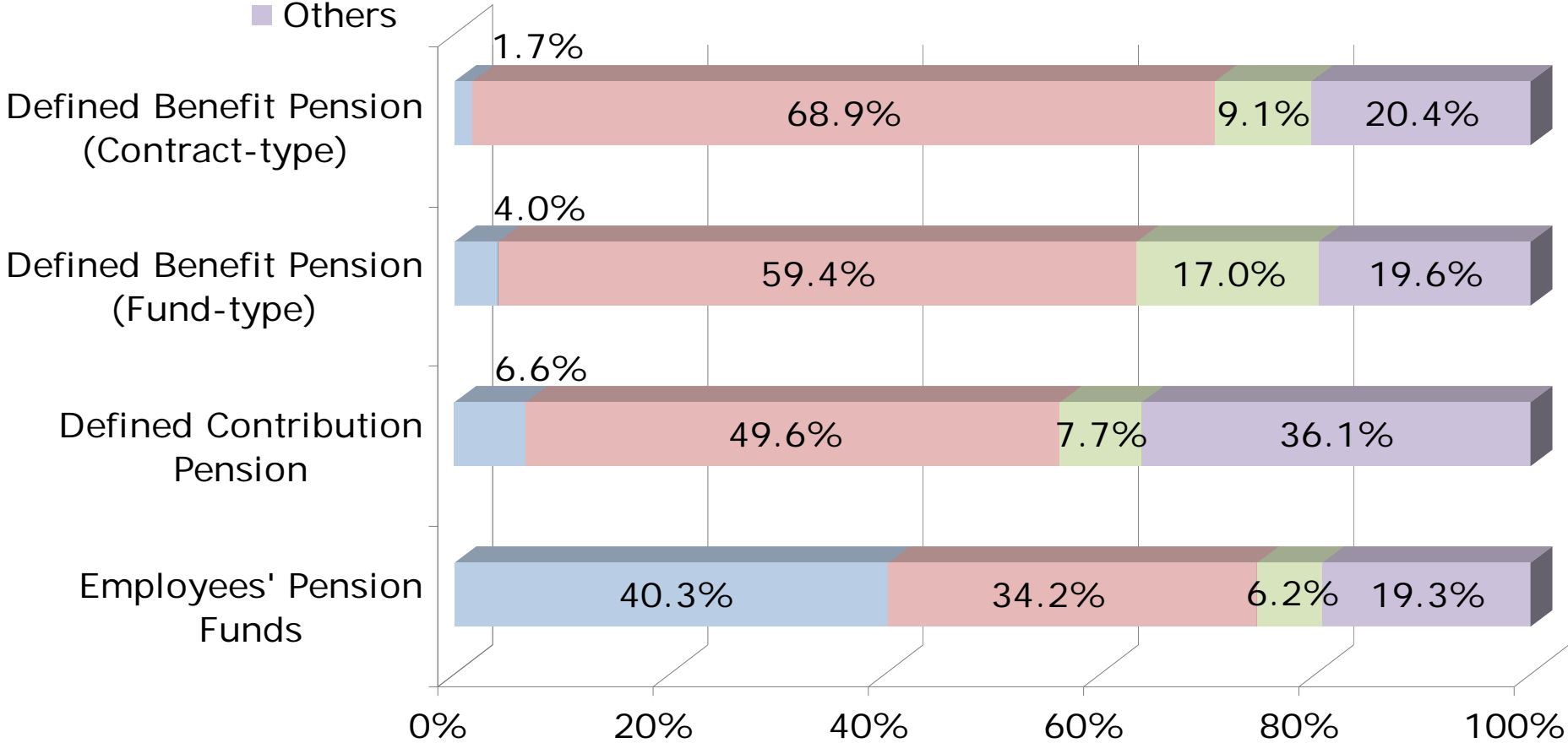


Source: "The employment situation of the elderly (2014)" Ministry of Health, Labour and Welfare's

# 2. Current status of the employment situation of the elderly and corporate pension plan

## (5) Payment starting age (by corporate pension type)

- At the same time of the public pension payment starting age
- At the same time of the mandatory retirement age
- At the certain age after the mandatory retirement age
- Others

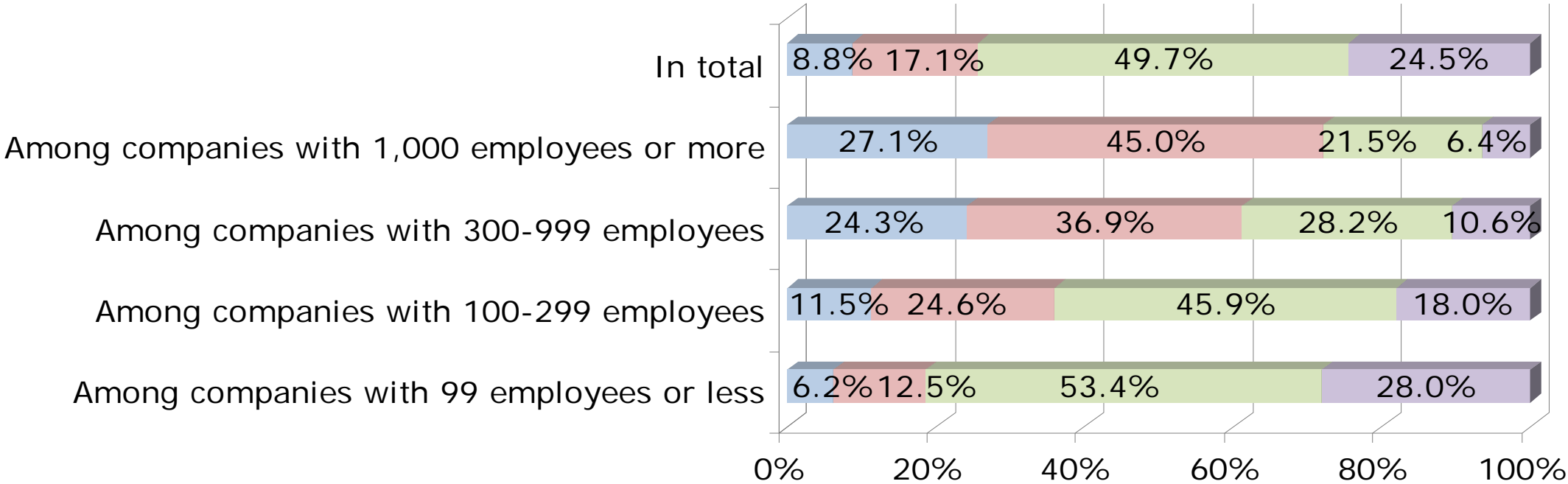


Source: "Private enterprise retirement benefits investigation (2012)" National Personnel Authority

# 2. Current status of the employment situation of the elderly and corporate pension plan

## (6) Breakdown of retirement benefit plans (by company size)

- Only a pension-type plan
- Both plans (pension-type and lump-sum-type)
- Only a lump-sum-type plan
- No plan



Source: "Working condition general investigation (2013)" Ministry of Health, Labour and Welfare's

## 2. Current status of the employment situation of the elderly and corporate pension plan

### (7) Differences of large companies and small and medium-sized companies

- For large companies,
  - Only a little more than half have responded to the regulatory change at this stage, among which, the continuous employment system dominates.
  - In the continuous employment system, all employees are not necessarily entitled to re-employment.
  - The coverage of corporate pension plans is wide.
  
- For small and medium companies,
  - Many companies have introduced the continuous employment system, while some have raised the mandatory retirement age.
  - Small and medium companies are relatively better-prepared for the employment of the elderly in comparison to large companies.
  - The coverage of corporate pension plans is limited.
  - Some companies do not provide the retirement benefits system.

### 3. The role of corporate pension plan for large companies

#### (1) Current status and issues

- In response to the future adjustment of the benefit level in public pensions, corporate pensions will become more important. The role of corporate pensions will not be limited only to the addition to the public pension but expanded to the economic supplement in the period between the mandatory retirement age and the pensionable age.
- The role of the retirement benefits system and corporate pension plan will be enlarged by the diversification of the employment situation of the elderly and the retirement age.
- Corporate pension plans should be managed flexibly according to each employee's way of working and need.

### 3. The role of corporate pension plan for large companies

#### (2) The discussions in the corporate pensions sectional meeting of the Social Security Council \*

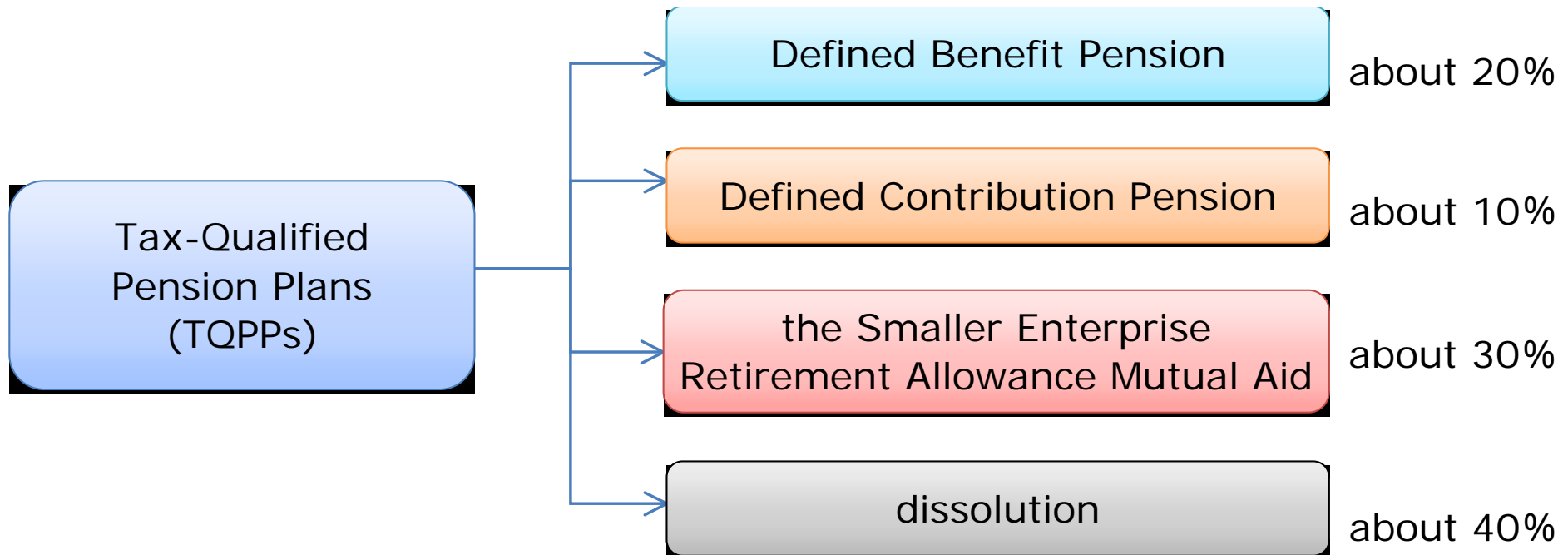
- The government should deregulate the benefit design of corporate pensions.
- The government should expand the coverage of Defined Contribution Pension (individual type).
- The government should improve portability in pension plans.
- The government should improve the investment environment of Defined Contribution Pension.
- Plan sponsors should strengthen the governance of corporate pensions.

\* Consultative body of the Minister of Health, Labour and Welfare

## 4. The role of corporate pension plan for small and medium companies

### (1) Trends of tax-qualified pension plans

- Many small and medium companies used to provide tax-qualified pension plans.
- To cope with the changes in the socioeconomic circumstances, Government decided to introduce new private pension systems, DBs and DCs, and accordingly to eliminate tax-qualified pensions until 2012.

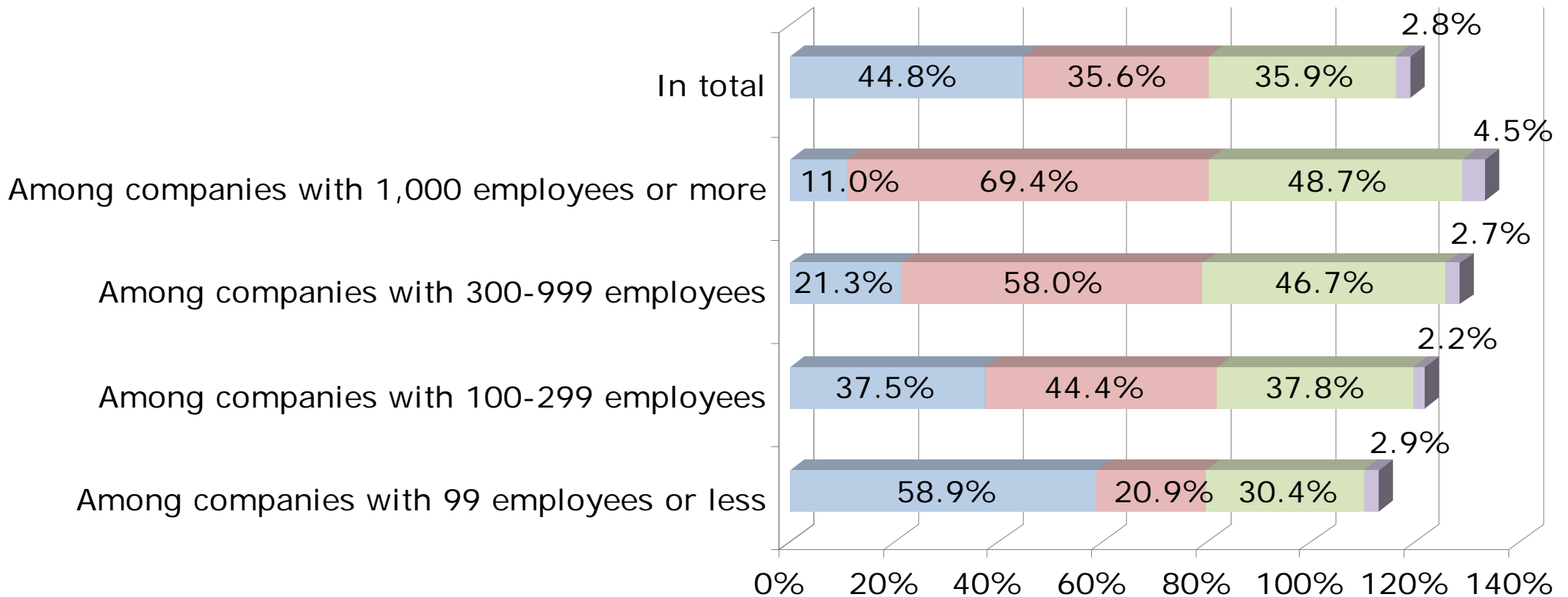


# 4. The role of corporate pension plan for small and medium companies

## (2) Breakdown of corporate pension plans (by company size)

- Employees' Pension Funds
- Defined Benefit Pension
- Defined Contribution Pension
- Company's original pension

\* multiple answers allowed



Source: "Working condition general investigation (2013)" Ministry of Health, Labour and Welfare's

## 4. The role of corporate pension plan for small and medium companies

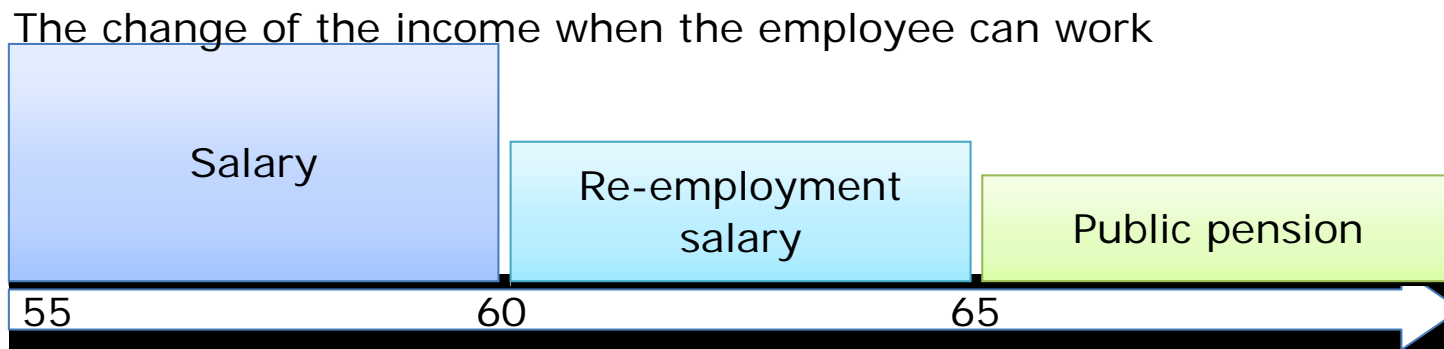
### (3) Shrinking the role of Employees' Pension Funds

- Following some scandals in Employees' Pension Funds scheme, Government decided to eliminate the scheme in 10 years and the bill became law in June, 2013.
- For small and medium companies sponsors, the presence of Employees' Pension Funds is significant. In view of the recent severe financial situation, it seems difficult for sponsoring small and medium companies to shift to other pension plans, which means the concern of further deterioration in corporate pension plan coverage. Many more small and medium companies are expected to have no pension plan.
- In such situations, some policies which give small and medium companies incentives are desirable.

## 4. The role of corporate pension plan for small and medium companies

### (4) The discussions in the corporate pensions sectional meeting of the Social Security Council

- Small and medium companies are relatively better-prepared for the employment of the elderly.
- But it does not necessarily mean that every employee can work beyond 60.
- Corporate pension plans are still expected to play the important role of welfare. In addition, corporate pension plans are expected to play the important role for the unexpected life events.



## 4. The role of corporate pension plan for small and medium companies

### (5) The discussions in the corporate pensions sectional meeting of the Social Security Council

- The government should relax the requirements in administrative procedures to encourage the sponsorship of pension plans.
- To reduce the financial burden of DC plan sponsors, Government should permit the utilization of the investment education provided by public institutions, such as the Pension Fund Association and Chamber of Commerce and Industry, to be jointly operated by more than one DC plans.
- Government should provide tax-incentives for Defined Contribution Pension (individual type) for employees in small and medium companies that cannot sponsor corporate pension plans.

## 5. Results and Conclusions

### (1) For large companies

- Only a little more than half have responded to the regulatory change at this stage, among which, the continuous employment system dominates.
- In the continuous employment system, all employees are not necessarily entitled to re-employment.
- The coverage of corporate pension plans is wide.
- Corporate pension plans should be managed flexibly according to each employee's way of working and need.

## 5. Results and Conclusions

### (2) For small and medium companies

- Many companies have introduced the continuous employment system, while some have raised the mandatory retirement age.
- Small and medium companies are relatively better-prepared for the employment of the elderly in comparison to large companies.
- The coverage of corporate pension plans is limited.
- Some companies do not provide the retirement benefits system.
  
- The government should promote the introduction of corporate pension plans as a safety net for the employees, or as a compensation for the insufficient public pension benefits.



Thank you for your kind attention.