

Japan

Japan: Pension system in 2016

The public pension system has two tiers: a basic, flat-rate scheme and an earnings-related plan (employees' pension scheme).

Key indicators: Japan

		Japan	OECD
Average worker earnings (AW)	JPY (million)	5.11	4.28
	USD	43 692	36 622
Public pension spending	% of GDP	10.2	8.2
Life expectancy	at birth	84.0	80.9
	at age 65	22.0	19.7
Population over age 65	% of working- age population	46.2	27.9

StatLink  <http://dx.doi.org/10.1787/888933635674>

Qualifying conditions

The basic old-age pension age is 65 years with a minimum of 25 years' of contributions. From 1 August 2017 the basic old-age pension benefit requires a minimum of ten years' of contributions. A full basic pension requires 40 years of contributions and benefits are adjusted proportionally for shorter or longer contribution periods.

The employees' pension is paid from age 65. The employees' pension is paid in addition to the basic pension with a minimum contribution equal to one month, provided the pensioner is entitled to the basic pension. A "specially provided" employees' pension benefit is currently being phased out and the pension age for this benefit is gradually being raised. For the flat-rate component the pension age is increasing from 60 to 65 years (this is still increasing from 2006 and 2018 for women). The earnings-related pension age is also increasing from 60 to 65 years between 2013 and 2025 for men and between 2018 and 2030 for women.

Benefit calculation

Basic

The full annual basic pension benefit for 2016 was equal to JPY 780100. In principle, the basic pension is indexed to net wages until the pensioner reaches age 67 and price indexed after age 68.

Earnings-related

The earnings-related pension benefit is adjusted for the remuneration and length of contributions.¹ There is a ceiling to contributions of JPY 620 000 a month.

Until 2025, a "specially provided" employees' pension is partially available for individuals between 60 and 64 years of age. The "specially provided" employees' pension has a flat-rate and earnings-related component. The flat-rate benefit depends on year of birth². The "specially provided" employees' pension has been phased out from 2013 for men and will be so from 2018 for women.

The employees' pension benefit in payment is indexed to net average earnings until the pensioner reaches age 67 and price-indexed thereafter.

¹. Monthly amount of average pensionable remuneration) × 0.7125% × (the period of contributions until March 2003) + (amount of average pensionable remuneration including bonuses) × 0.5481% × (the period of contributions after April 2003).

². JPY 1625 × (rate in accordance with the date of birth) × (the period of contributions) × 0.961

Social assistance

There is a social assistance system that all citizens, including the elderly, can receive indiscriminately and equally. Social assistance guarantees a minimum standard of living for those who are still in need of life even if they can utilize available assets and abilities including other social security benefits such as pensions. The annual amount of the minimum standard for a 60-year-old to 69-year-old living in Tokyo in 2016 is JPY 970 380 per person. This is the amount for the living cost excluding housing assistance, medical assistance, and other benefits.

Contracting out

Employers who have at least 1 000 employees may “contract out” from the earnings-related scheme if they cover their employees themselves. Around 6% of employees participate in these schemes. Contracting-out requires that employers offer at least 150% of the benefit that the public earnings-related scheme would have provided. The calculation of the pension required for contracting out is based on lifetime average nominal earnings. Indexation of pensions in payment and valorisation of past earnings is financed by the government.

The contribution rate in contracted-out schemes is determined by the government depending on the age structure of the covered employees and an actuarial assumption. Since 2005, the rate ranges between 2.4% and 5% of total remuneration.

Since 2001 the government has been promoting defined contribution pension schemes and defined benefit occupational pension schemes to replace earnings-related pensions schemes. From April 2014 the establishment of new earnings-related pension schemes is not possible.

Voluntary private pension

There is an additional voluntary pension which is assumed to be defined benefit. The assumed contribution rate is 5.06% and this gives an annual accrual of 0.5144%, based on survey data.

Variant careers

Early retirement

Early retirement at a reduced benefit is possible in both the basic and earnings-related schemes. The benefit is reduced by 0.5% per month of early retirement, i.e. 6% per year. Individuals can claim the flat-rate component of the employees’ pension between 60 and 65. The pension in payment is indexed to net earnings until the pensioner reaches age 67 and price-indexed after age 68.

Late retirement

Late retirement is possible and deferral increases the pension benefit by 0.7% per month, i.e. 8.4% per year. Pension rights continue to accrue for each year of contribution.

Since 2004 it is possible to combine work and pension receipt after age 65 provided that the total income (from earnings and pension) does not exceed JPY 470 000. Above this limit, half of the excess will be reduced from the full earnings-related pension payment but the basic pension will be paid in full. Workers over 70 do not need to pay contributions.

Childcare

Periods spent out of paid work for childcare are credited in the earnings-related scheme up to three years for each child and until the last child is three years old. During these periods contributions are considered to be made on the last earnings before the child care period. Qualifying conditions for the entire period are credited. In case of part-time work the contribution will be based on the current earnings but the

pension benefits will be calculated based on their previous earnings. Maternity leave is exempt from social insurance premiums.

Unemployment

The unemployed, or individuals whose income is below a certain level, do not need to contribute to the earnings-related scheme; however they need to contribute to the basic scheme. The unemployed may be exempted from paying all, three-quarters, one-half or one-quarter of contributions, depending on the household income level. A single person with previous year's income less than JPY 570 000 is exempted from paying any contributions. People with income less than JPY 780 000 are entitled to one-quarter of contributions, those with income lower than JPY 1 410 000 pay one-half and those with income less than JPY 1 580 000 pay three-quarters of contributions.

For the periods of full exemption individuals are entitled to one-half of the basic pension and for the period with one-quarter of contribution five-eighths of the basic pension. For the periods with one-half contribution individuals gain three-quarters of the basic pension and for the period with three-quarters of contribution seven-eighths of the basic pension is credited. The exempted period is counted as full contribution period in assessing the qualifying conditions. It is possible to make up for contributions until 10 years later to receive a higher pension after retirement.

Personal income tax and social security contributions

Taxation of pensioners

A flat amount of JPY 0.5 million is deducted from the taxable pension income for all pensioners. Fixed-rate deductions for pension income is equal to 25% of pension income up to JPY 3.6 million (after a flat amount deduction), 15% of pension income up to JPY 7.2 million (after a flat amount deduction) and 5% thereafter. Finally, a guaranteed minimum deduction for pension income of JPY 1.2 million is applied for all pensioners over age 65. For those below age 65 the amount is JPY 0.7 million.

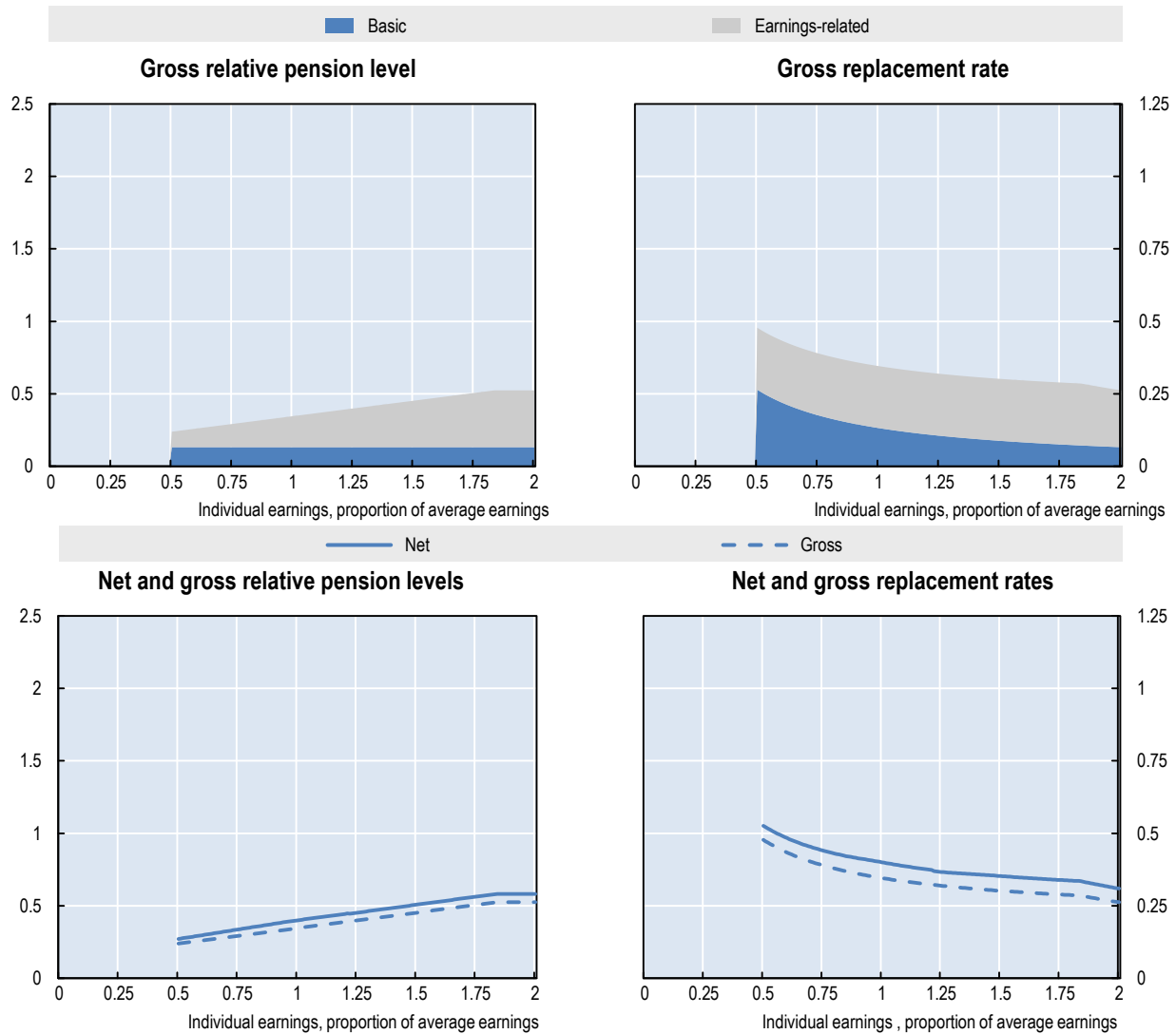
Taxation of pension income

There are no special rules for the taxation of pension income.

Social security contributions payable by pensioners

Contributions to health insurance and long-term care insurance are levied on pension income. Long-term care insurance is managed by municipalities and the amount of contribution is determined by the cost for the service, the number of beneficiaries, and their income distribution in a city. In 2012, the average contribution is JPY 59 664.

Pension modelling results: Japan in 2061 retirement at age 65



Men <i>Women (where different)</i>	Individual earnings, multiple of average					
	0.5	0.75	1	1.5	2	3
Gross relative pension level (% average gross earnings)	23.9	29.2	34.6	45.3	52.4	52.4
Net relative pension level (% net average earnings)	27.1	33.7	40.0	50.8	58.2	58.2
Gross replacement rate (% individual gross earnings)	47.8	39.0	34.6	30.2	26.2	17.5
Net replacement rate (% individual net earnings)	52.6	44.1	40.0	35.3	31.0	21.8
Gross pension wealth (multiple of individual gross earnings)	9.1	7.4	6.6	5.8	5.0	3.3
Net pension wealth (multiple of individual net earnings)	10.0	8.4	7.6	6.7	5.9	4.2
	12.0	10.1	9.2	8.1	7.1	5.0

Assumptions: Real rate of return 3%, real earnings growth 1.25%, inflation 2%, and real discount rate 2%. All systems are modelled and indexed according to what is legislated. Transitional rules apply where relevant. DC conversion rate equal 90%. Labour market entry occurs at age 20 in 2016. Tax system latest available: 2015.

StatLink  <http://dx.doi.org/10.1787/888933635693>