

# Japan

## Japan: Pension system in 2020

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)	5.2	4.2
	USD	48 562	39 178
Public pension spending	% of GDP	9.4	7.7
Life expectancy	at birth	84.4	80.6
	at age 65	22.3	19.7
Population over age 65	% of working- age population	52.0	30.4

## Qualifying conditions

All people aged between 20 and 59 who live in Japan are covered by the basic pension scheme. Additionally if they are employed, they are also covered by employee's pension scheme until they reach 70. Insured persons who are covered only by basic pension scheme, such as the self-employed, pay a flat-rate contribution (Insured Category 1). Insured persons who are covered by employee's pension scheme, only pay an earnings-related contribution (Insured Category 2). In 2020, the contribution amount was 18.3% of the salary, and the employers bear the half of it. Dependent spouses of Category 2 insured are also credited for the basic pension though not required to pay any contribution (Insured Category 3).

The basic old-age pension age is 65 years with a minimum of 10 years' of contributions. A full basic pension requires 40 years of contributions and benefits are adjusted proportionally for shorter contribution periods. Every month of any type of insured from category 1 to 3 are credited into the 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. In 2020, the benefit could be paid from 63 for men and 61 for women. These ages are scheduled to be raised to 64 and the benefit will be abolished for men after 2025, for women after 2030.

## Benefit calculation

### Basic

The full annual basic pension benefit for 2020 was equal to JPY 781 700. 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 calculated based on the remuneration and insured period of the employees' pension scheme.<sup>1</sup> There is a ceiling of JPY 650 000 a month to the remuneration on which contributions are levied.

<sup>1</sup>.  $(\text{monthly amount of average pensionable remuneration excluding bonuses}) \times 0.7125\% \times (\text{the number of months of contributions until March 2003}) + (\text{monthly amount of average pensionable remuneration including bonuses}) \times 0.5481\% \times (\text{the number of months of contributions after April 2003}).$

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

### ***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 65-year-old to 69-year-old living in Tokyo from October 2020 is JPY 935 800 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 0.3% of employees participate in earnings-related pension funds.

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

### ***Voluntary private pension***

It is difficult to accurately model voluntary pensions in Japan. Most schemes seem to be defined benefit, but the OECD does not have access to reliable data related to the formal rules that apply to the contribution rates and, more importantly for modelling purposes, to accrual rates across schemes. For the purpose of this analysis, an accrual rate of 0.54% was assumed giving total replacement rate of 55.4%, when contributing for the whole career with 23.1 p.p. coming from the voluntary component. If the accrual rate used were to be half of this, replacement rates from the voluntary part would be proportionately reduced.

## **Variant careers**

### ***Early retirement***

Early retirement at a reduced benefit is possible at the earliest at 60 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. 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 between 65 and 70 and deferral increases the pension benefit by 0.7% per month, i.e. 8.4% per year. Pension rights continue to accrue for each month of contribution after age 65.

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 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 reduced earnings but the

pension benefits will be calculated based on their previous earnings. Women, including self-employed, are also exempted from pension contribution for maternity periods.

### *Unemployment*

The unemployed, are no longer covered by employees' pension scheme, and they are classified into Category 1 insured persons. Even though they need to pay a flat-rate contribution to the basic scheme, they 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 1 180 000 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.

### *Self-employed*

The self-employed are covered by the basic pension but they are not mandatorily covered by earnings-related schemes.

## **Personal income tax and social security contributions**

### *Taxation of pensioners*

A flat amount of JPY 400 000 is generally deducted from the taxable pension income for all pensioners (a "flat-amount deduction"). A fixed-rate deductions for pension income is equal to 25% of pension income up to JPY 3.6 million (after deducting JPY 500 000), 15% of pension income up to JPY 7.2 million (after deducting JPY 500 000), and 5% of pension income up to JPY 9.5 million (after deducting JPY 500 000). 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 of a guaranteed minimum deduction is JPY 600 000.

Note: JPY 100 000 for those whose income other than pension exceeds 10 million yen but does not exceed JPY 20 million, or JPY 200 000 for those whose income exceeds JPY 20 million, is reduced from the amount of the above fixed deduction, fixed rate deduction and guaranteed minimum deduction, respectively.

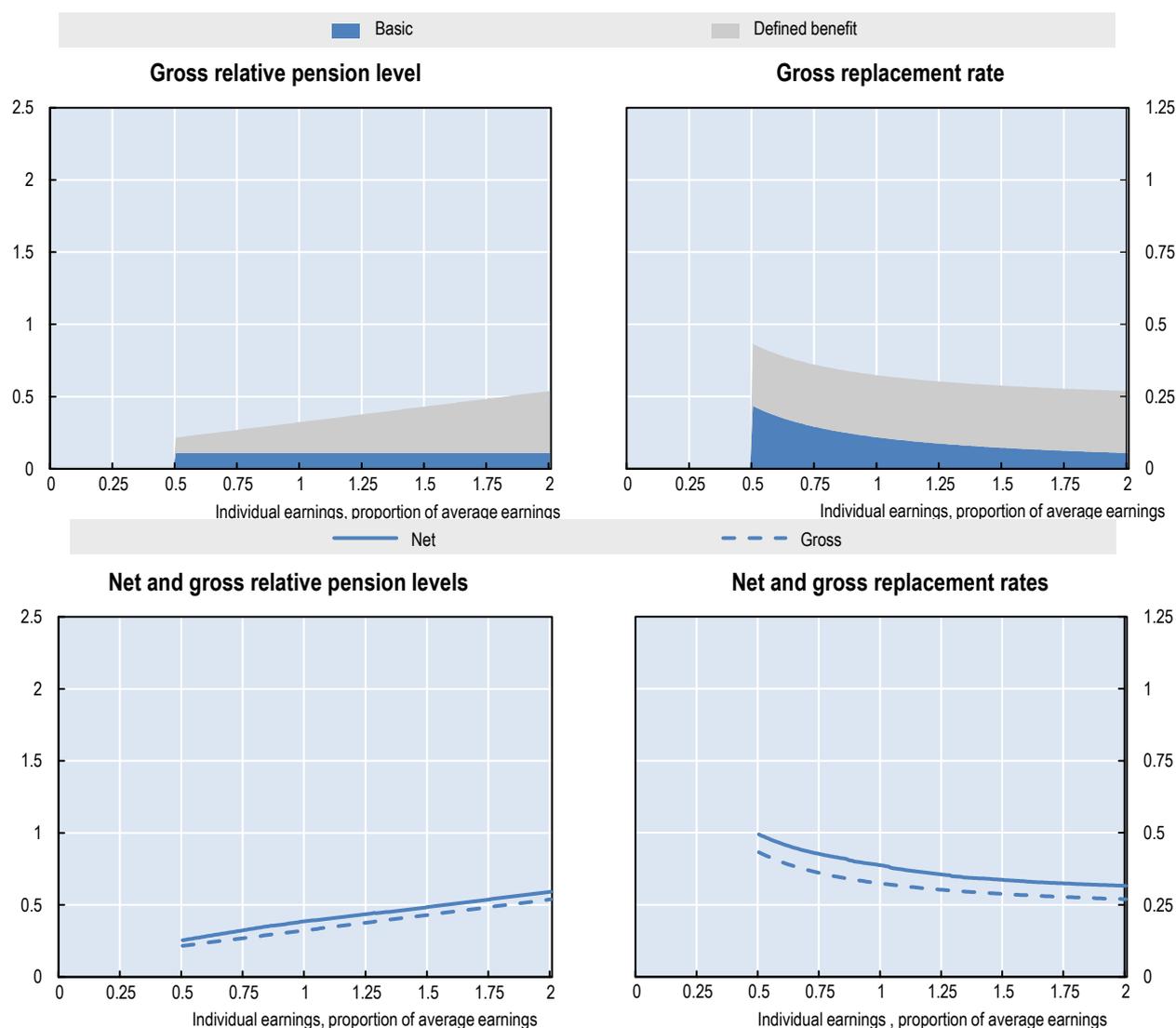
### *Taxation of pension income*

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 2020, the average contribution is JPY 70 428.

## Pension modelling results: Japan in 2063 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)	21.6	27.0	32.4	43.1	53.9	61.9
Net relative pension level (% net average earnings)	25.5	32.5	38.7	48.5	59.2	67.2
Gross replacement rate (% individual gross earnings)	43.2	36.0	32.4	28.8	26.9	20.6
Net replacement rate (% individual net earnings)	49.5	42.6	38.7	33.6	31.6	25.5
Gross pension wealth (multiple of individual gross earnings)	8.3	6.9	6.2	5.5	5.2	3.9
Net pension wealth (multiple of individual net earnings)	9.7	8.1	7.4	6.4	6.0	4.6
	9.5	8.1	7.4	6.4	6.0	4.9
	11.1	9.6	8.7	7.6	7.1	5.7

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 22 in 2020. Tax system latest available: 2020.