

# Pensions at a Glance 2023



# Japan

## Japan: Pension system in 2022

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    | 5.4    |
|                              | USD                         | 39 195 | 41 261 |
| Public pension spending      | % of GDP                    | 9.3    | 7.7    |
| Life expectancy              | at birth                    | 84.8   | 80.7   |
|                              | at age 65                   | 87.5   | 84.6   |
| Population over age 65       | % of working-age population | 55.4   | 31.3   |

## 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). From 2017, the contribution amount was fixed at 18.3% of the remuneration, 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 2022, the benefit could be paid from 64 for men and 62 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 2022 was equal to JPY 777 800. 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. There is a ceiling of JPY 650 000 a month to the remuneration on which contributions are levied.

In principle, the employees' pension benefit in payment is indexed to net wages until the pensioner reaches age 67 and price indexed after age 68.

***Social assistance***

There is a social assistance system that all citizens, including the elderly, can receive in a non-discriminatory and equal manner. Social assistance guarantees a minimum standard of living for those who are still in need of life even if they can utilize assets, abilities every other thing available to them 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 in 2022 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.

**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 0.4% per month of early retirement, i.e. 4.8% per year. In principle, the pension in payment is indexed to net wages until the pensioner reaches age 67 and price indexed after age 68.

***Late retirement***

Late retirement is possible between 65 and 75 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 to 70 if individuals keep working and insured (Category 2).

Since 2007 it is possible to combine work and pension receipt after age 65 provided that the total income (from earnings and pension) does not exceed base amount (JPY 470 000 per month in 2022). 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

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to be made on the last earnings before the childcare period. Qualifying conditions for the entire period are credited. In case of reducing working hours, 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 exempted from pension contribution for maternity periods. In addition, individuals are exempted from pension contribution during parental leave.

### ***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 670 000 is exempted from paying any contributions. People with income less than JPY 880 000\* are entitled to one-quarter of contributions, those with income lower than JPY 1 280 000 pay half and those with income less than JPY 1 680 000 pay three-quarters of contributions.

For the periods of full exemption, individuals are entitled to 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***

There is no special tax benefit or rule for the taxation of pensioners (specifically).

### ***Taxation of pension income***

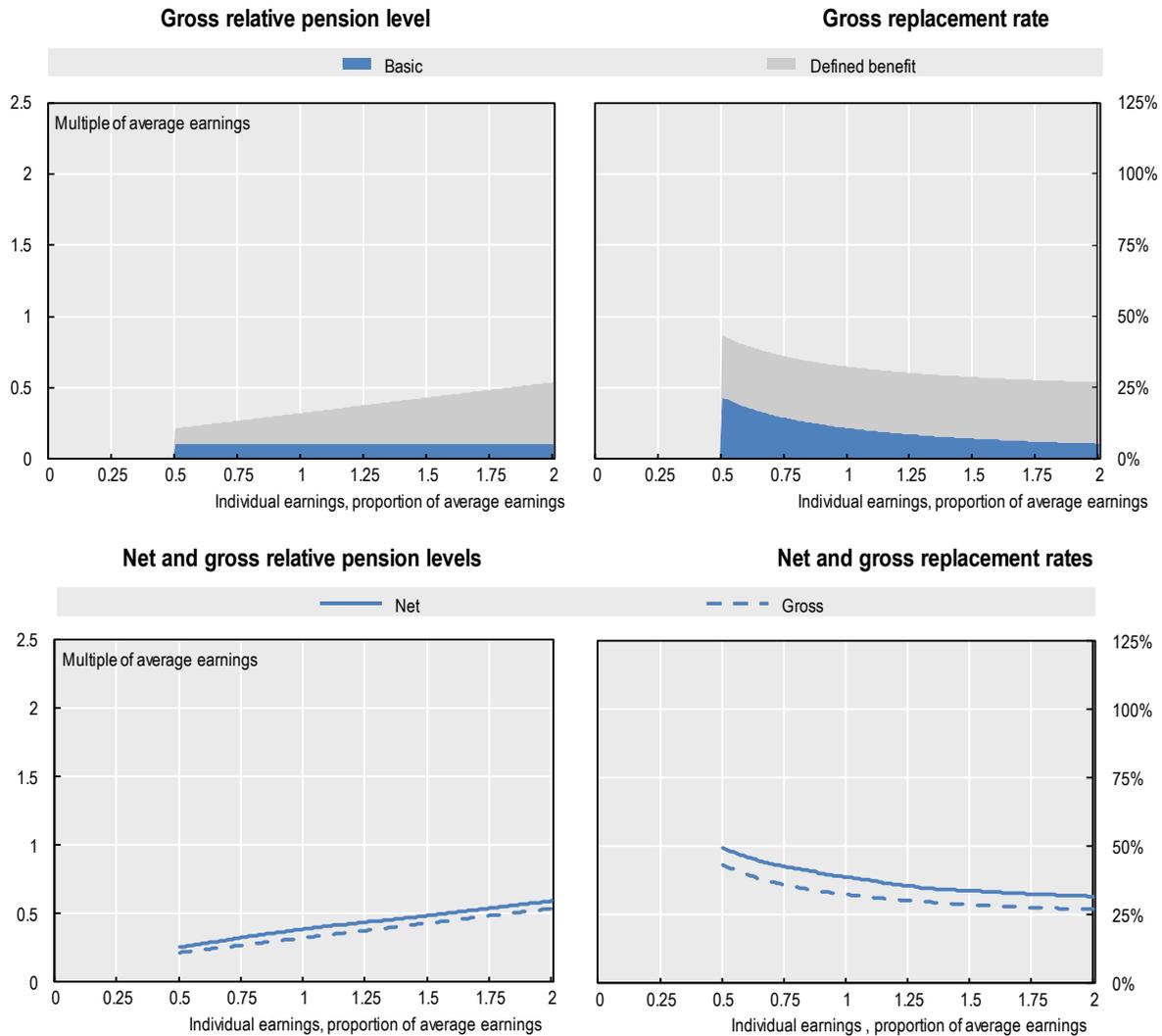
The fixed amount of JPY 400 000 is generally deducted from the taxable pension income for all pensioners (the "fixed-amount deduction"). The flat-rate deductions for pension income is equal to 25% of pension income up to JPY 3.6 million (after deducting JPY 500 000), 15% of pension income up to JPY 7.2 million (after deducting JPY 500 000), and 5% of pension income up to JPY 9.5 million (after deducting JPY 500 000). Finally, the guaranteed minimum deduction for pension income of JPY 1.1 million is applied for all pensioners over the age of 65. For those below age 65, the amount of the guaranteed minimum deduction is JPY 600 000.

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

***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 2022, the average contribution is JPY 72 168.

Pension modelling results: Japan in 2065 retirement at age 65



| Men<br>Women (where different)                                  | Individual earnings, multiple of average |      |      |      |      |      |
|---|--|------|------|------|------|------|
|   | 0.5                                      | 0.75 | 1    | 1.5  | 2    | 3    |
| Gross relative pension level<br>(% average gross earnings)      | 21.6                                     | 27.0 | 32.4 | 43.1 | 53.9 | 62.2 |
| Net relative pension level<br>(% net average earnings)          | 25.5                                     | 32.5 | 38.8 | 48.7 | 59.4 | 67.6 |
| Gross replacement rate<br>(% individual gross earnings)         | 43.3                                     | 36.0 | 32.4 | 28.8 | 26.9 | 20.7 |
| Net replacement rate<br>(% individual net earnings)             | 49.5                                     | 42.6 | 38.8 | 33.8 | 31.8 | 25.7 |
| Gross pension wealth<br>(multiple of individual gross earnings) | 9.2                                      | 7.7  | 6.9  | 6.1  | 5.7  | 4.4  |
| Net pension wealth<br>(multiple of individual net earnings)     | 10.5                                     | 9.1  | 8.2  | 7.2  | 6.8  | 5.5  |
|   | 12.5                                     | 10.7 | 9.8  | 8.5  | 8.0  | 6.5  |

Assumptions: Real rate of return 2.5%, real earnings growth 1.25%, inflation 2%, and real discount rate 1.5%. All systems are modelled and indexed according to what is legislated. Transitional rules apply where relevant. DC conversion rate equals 90%. Labour market entry occurs at age 22 in 2022. Tax system latest available: 2022.