Books published by the
PENSION RESEARCH COUNCIL:

Actuarial Aspects of Pension Security—William F. Marples (1964)
A New Look at Accounting for Pension Costs—William D. Hall & David L. Landsittel (1979)
Collectively Bargained Multi-Employer Pension Plans—Joseph J. Melone (1963)
Concepts of Actuarial Soundness in Pension Plans—Dorrance C. Bronson (1957)
Continuing Care Retirement Communities—Howard E. Winklevoss & Alwyn Powell (1985)
Employer Accounting for Pensions—Ernest L. Hicks & C. L. Trowbridge (1985)
Ensuring Medical Care for the Aged—Mortimer Spiegelman (1960)
Financing the Civil Service Retirement System—Dan M. McGill, ed. (1979)
Fulfilling Pension Expectations—Dan M. McGill (1962)
Guaranty Fund for Private Pension Obligations—Dan M. McGill (1970)
Indexation of Pension and Other Benefits—Robert J. Myers (1978)
It’s My Retirement Money—Take Good Care of It: The TIAA-CREF Story—William C. Greenough (1990)
Joint Trust Pension Plans—Daniel F. McGinn (1979)
Legal Protection of Private Pension Expectations—Edwin W. Patterson (1960)
Legal Status of Employee Benefit Rights under Private Pension Plans—Benjamin Aaron (1961)
Pension Asset Management—Leslie Hannah (1988)
Pension Mathematics—Howard Winklevoss (1977)
Positive Experiences in Retirement—Otto Pollak (1957)
Preservation of Pension Benefit Rights—Dan M. McGill (1972)
Reciprocity among Private Multi-Employer Pension Plans—Maurice E. McDonald (1975)
Retirement Systems for Public Employees—Thomas Bleakney (1973)
Social Aspects of Retirement—Otto Pollak (1958)
Retirement Systems in Japan

Robert L. Clark
Department of Economics and Business
North Carolina State University

Ralph H. Blanchard Memorial Endowment Series
Volume IV

Published for the
Pension Research Council
Wharton School
University of Pennsylvania
by
IRWIN
Homewood, IL 60430
Boston, MA 02116
PENSION RESEARCH COUNCIL

Director
Dan M. McGill, Frederick H. Ecker Professor of Life Insurance, The Wharton School

Associate Director
Dwight K. Bartlett III, F.S.A., Visiting Executive Professor of Insurance, The Wharton School

Research Director
Jack L. VanDerhei, Associate Professor of Risk and Insurance, Temple University

Vincent Amoroso, Principal, KPMG Peat Marwick, Washington, D.C.
Zvi Bodie, Professor of Finance and Economics, Boston University
George W. Cowles, Senior Vice President, Bankers Trust Company, New York, NY
Gary I. Gates, Secretary, Department of Employee Trust Funds, State of Wisconsin, Madison
Michael S. Gordon, Esq., Attorney, Washington, D.C.
Donald S. Grubbs, Jr., F.S.A., Consulting Actuary, Grubbs and Co., Inc., Silver Spring, MD
Ronald E. Keller, Senior Vice President, Principal Financial Group, Des Moines, IA
Raymond Lauver, Member, Financial Accounting Standards Board, Norwalk, CT
Judith F. Mazo, Senior Vice President and Director of Research, Martin E. Segal Co., New York City
Alicia H. Munnell, Senior Vice President and Director of Research, Federal Reserve Bank of Boston, Boston, MA
Roger F. Murray, Emeritus Professor of Finance, Columbia University, Wolfeboro, NH
Robert J. Myers, F.S.A., International Consultant on Social Security, Silver Spring, MD

The copyright for "Retirement Systems in Japan" by R. Clark is held by The McGraw-Hill Companies, Inc.

James E. Pesando, Professor of Economics, University of Toronto

Samuel Preston, Chairman, Graduate Group in Demography, University of Pennsylvania

Anna M. Rappaport, F.S.A., Managing Director, William M. Mercer Meidinger Hansen Inc., Chicago

Jerry S. Rosenbloom, Chairman, Insurance Department, The Wharton School

Sylvester J. Schieber, Director of Research, Wyatt Company, Washington, D.C.


Richard B. Stanger, National Director, Employee Benefits Services, Price Waterhouse, Washington, D.C.

Marc M. Twinney, F.S.A., Manager of Pension Department, Ford Motor Company, Dearborn, MI

L. Edwin Wang, Past President, Board of Pensions of Lutheran Church in America, Minneapolis, MI

Howard E. Winklevoss, President, Winklevoss Consultants, Inc., Greenwich, CT

Howard Young, F.S.A., Adjunct Professor of Mathematics, University of Michigan, Ann Arbor, MI
PURPOSE OF THE COUNCIL

Founded in 1952, the Pension Research Council is one of several research organizations within the Wharton School of the University of Pennsylvania. As part of the nation's first school of business, the Council functions in a bracing environment of academic freedom and objectivity. The basic purpose of the Council is to undertake research that will have the effect of strengthening those arrangements designed to provide the financial resources needed for a secure and dignified old age. It seeks to broaden public understanding of these complex arrangements through basic research into their social, economic, legal, actuarial, and financial foundations. Although geared to the long view of the pension institution, projects undertaken by the Council are always relevant to real world concerns and frequently focus on issues under current debate.

The Council is composed of individuals from large corporate plan sponsors, organized labor, actuarial consulting firms, the accounting profession, the legal profession, investment counselors, banks, insurance companies, not-for-profit organizations, and several academic disciplines. The Council does not speak with one voice and espouses no particular point of view. The members do share a general desire to encourage and strengthen private-sector approaches to old age economic security, while recognizing the essential role of social security and other income maintenance programs in the public sector.

The members of the Council are appointed by the Dean of the Wharton School and serve indeterminate terms. The Council reviews the findings of current research projects, acts to generate new research proposals, and reviews external proposals. In performing these functions, the members identify areas in which additional research is needed, consider the general
form the research should take, then evaluate the qualifications of persons deemed capable of carrying out the approved projects.

The research projects are carried out by persons commissioned under individually designed ad hoc arrangements. The researchers are normally academic scholars, but nonacademic experts with special qualifications for the tasks involved may be used. The research findings are reviewed by members of the Council, who may offer criticism as to both the substance of the report and the inferences drawn from the studies. The author of any manuscript is free to accept or reject the criticisms of the Council members, but the latter have the privilege of recording in the published document their dissent from any interpretative statements or points of view expressed by the author. Whether or not written dissents are included, publication should not be interpreted to indicate either agreement or disagreement by the Council or its individual members with the substance of the document or its inferences.
My interest in Japanese retirement policies developed during a series of visits to Japan in 1988–89. On these occasions, I was a visiting researcher at Nihon University Population Research Institute in Tokyo. The staff of NUPRI was very generous in providing research resources and helping locate numerous pension experts in Japan. I wish to thank Hideo Ibe, Japan Foundation for Research and Development of Pension Schemes; Eiji Mizutani and David Crawford, The Wyatt Co.—Tokyo; Kiyoshi Owada, president of Pension Fund Association; Junichi Sakamoto, deputy director, Actuarial Affairs Division, Pension Bureau, Ministry of Health and Welfare; Toshio Suzuki, Japan Federation of Employers’ Association; and Noriyasu Watanabe, Research Institute of Life Insurance Welfare, for taking time to discuss the Japanese pension system with me. Kiyoshi Murakami, Nippon Dantai Life Insurance Company, provided several of his papers and other pension information. A special thanks goes to Naohiro Ogawa, NUPRI, who made my trips to Japan possible and taught me about the economic and demographic conditions of Japan. Toru Nakaya provided valuable translation assistance. Richard Ippolito has made many valuable comments on several drafts of this manuscript.
CONTENTS

List of Tables and Figures xiii

1 Introduction 1
   Overview of Retirement Programs 1
   Population Aging in Japan 4
   Implications of Population Aging 7
   Framework for Analysis 10

2 Work and Retirement 12
   Labor Markets and Employment Contracts 12
   Mandatory Retirement 14
   Work after Retirement 17
   Government Employment Policies 19
   Labor Force Participation Rates 21
   Retirement Policies in an Aging Society 23

3 Social Security Retirement Benefit Systems 27
   Increasing Costs and the Need for Reform 30
   National Pension 34
   Employees' Pension Insurance 38
   Social Security: Problems and Prospects 46

4 Tax Policy, Private Retirement Plans, and Lump-Sum Payments 52
   Tax Policy and Retirement Income 52
   Coverage by Retirement Plans 59
   Lump-Sum Severance Pay 60
   Changing Nature of Lump-Sum Plans 65

5 Private Pension Plans 69
   Tax-Qualified Pensions 70
Contents

Employees’ Pension Funds 74
Nonqualified Private Pensions 84
Comparing Employees’ Pension Funds and Tax-Qualified Pensions 85

6 Lessons from the Japanese Experience for U.S. Pension Policy 94
# LIST OF TABLES AND FIGURES

## Tables

1.1. Population Ratios: Japan and United States  
1.2. Projection of Pension Expenditures: Developed Countries  
2.1. Proportion of Employees Who Are Part-Time Workers by Firm Size  
2.2. Distribution of Mandatory Retirement Ages  
2.3. Mandatory Retirement Age and Size of Firm  
2.4. Average Retirement Age by Industry  
2.5. Labor Force Participation Rates of Men Aged 65 and Older  
2.6. Age-Specific Labor Force Participation Rates  
3.1. Statutory Pension Schemes  
3.2. Employees’ Pension Insurance Contribution Rates  
3.3. Trends and Projections of Participants, Beneficiaries, and Contribution Rates: Employees’ Pension Insurance  
3.4. National Pension Contribution Amounts  
3.5. Trends and Projections of Participants, Beneficiaries, and Contribution Amounts: National Pension  
3.6. Social Security Trust Fund Reserves  
3.7. Early Retirement Penalties and Delayed Retirement Credits for National Pension  
3.8. Insurable Period for National Pension  
3.9. Schedule of Monthly Insured Remuneration for Employees’ Pension Insurance System  
3.10. Coefficients and Unit Amounts Under Transitional Provisions of Employees’ Pension Insurance Scheme  
4.1. Coverage By Retirement Benefit Plans
4.2. Voluntary Retirement Benefits as Percent of Involuntary Retirement Benefits 61
4.3. Minimum Service Requirements for Eligibility for Lump-Sum Severance Payment 62
4.4. Lump-Sum Retirement Allowance for Involuntary Termination 63
5.1. Number of Tax-Qualified Pension Plans 73
5.2. Tax-Qualified Pension Funds Invested in Insurance Companies and Trust Banks 74
5.3. Size Distribution of Employees’ Pension Funds 75
5.4. Industrial Distribution of Employees’ Pension Funds 76
5.5. Terminations and Mergers in Employees’ Pension Funds 82
5.6. Contributions to Pension Guaranty System 84
5.7. Participants in Employees’ Pension Funds and Tax-Qualified Plans 86
5.8. Pension Coverage among Firms Listed on Japanese Stock Exchange 87
5.9. Number of Beneficiaries and Average Benefit Amounts 88
5.10. Pension Fund Assets Managed by Trust Banks 90
5.11. Total Assets Managed by Insurance Companies 91

Figures
1.1. Coverage by Retirement Income Plans 3
1.2. Ratio of Persons 65 and Older to Total Population 7
1.3. Birth and Death Rates in Japan 8
1.4. Trend in Life Expectancy at Birth 9
3.1. Change in Total Social Security Benefits Due to 1985 Pension Reform: Average Married Retired Employee 43
5.1. Amount of Guaranteed Pension Payment to Terminated Employees’ Pension Funds 83