

The 2012 Issues in the Japanese Corporate Pension Plans

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Abstract

The year 2012 might be one of turning points in the Japanese corporate pension plan history.

The Japanese corporate pension plans started by the introductions of the Tax Qualified Pension Plans and the Employees' Pension Funds in 1960s. And the Defined Benefit Corporate Pension Plans and the Defined Contribution Pension Plans were introduced in 2001-2. The Tax Qualified Pension Plans were decided to be expired in March 2012 then. Therefore the 2012 is an important year in the Japanese corporate pension history because the Tax Qualified Pension Plans, which continued to be managed for more than 40 years, have to be changed to other pension plans or terminated. But the year 2012 might have the more importance than that in the Japanese corporate pension plan history.

This paper verifies the features of Japanese corporate pension plans as compared with US and UK corporate pension plans, and discusses the future development of Japanese corporate pension plans.

Keywords: The Defined Benefit Pension Plans, The Defined Contribution Pension Plans, The Tax Qualified Pension Plans, The year 2012 Problem

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1. Introduction

The Japanese corporate pension plans started by the introductions of the Tax Qualified Pension Plans (the TQPPs) and the Employees' Pension Funds (the EPFs) in 1962 and 1965 respectively. Those legislative corporate pension plans had been expanded, especially in late 1960s and in late 1980s. The EPFs had been popularized due to investment and management deregulation, including mark-to-market valuations, and reached 1,878 Funds, 12 million participants at their peak in 1996. The TQPPs had 92 thousand contracts and 11 million participants in 1996. More than half employees were covered by corporate pension plans.

However, 'Perfect Storm' affected Japanese corporate pension plans likewise US's and UK's ones. The EPFs had experienced three consecutive year negative investment performance in 2000-02. Though the Japanese government took several measures for the EPFs, including relaxation of deficiency level and revaluation standards, the damage to Japanese Corporate Pension plans was so severe that those mitigation policies could not improve their symptoms in full.

Two corporate pension system bills, the Defined Contribution Pension Act (the DCPA) and the Defined Benefit Corporation Pension Act (the DBCPA), passed the Diet in June 2001. The former Act (the DCPA) was enacted in October 2001 and the latter Act (the DBCPA) was enacted in April 2002. The cash balance plan was also introduced as a kind of a defined benefit (DB) plan. According to the introduction of those two corporate pension acts, the possibility of Japanese corporate pension plans diversified.

The year 2012 might be one of turning points in the Japanese corporate pension plan history. The DBCPA decided that the TQPPs should be expired in March 2012. Therefore the TQPPs, which

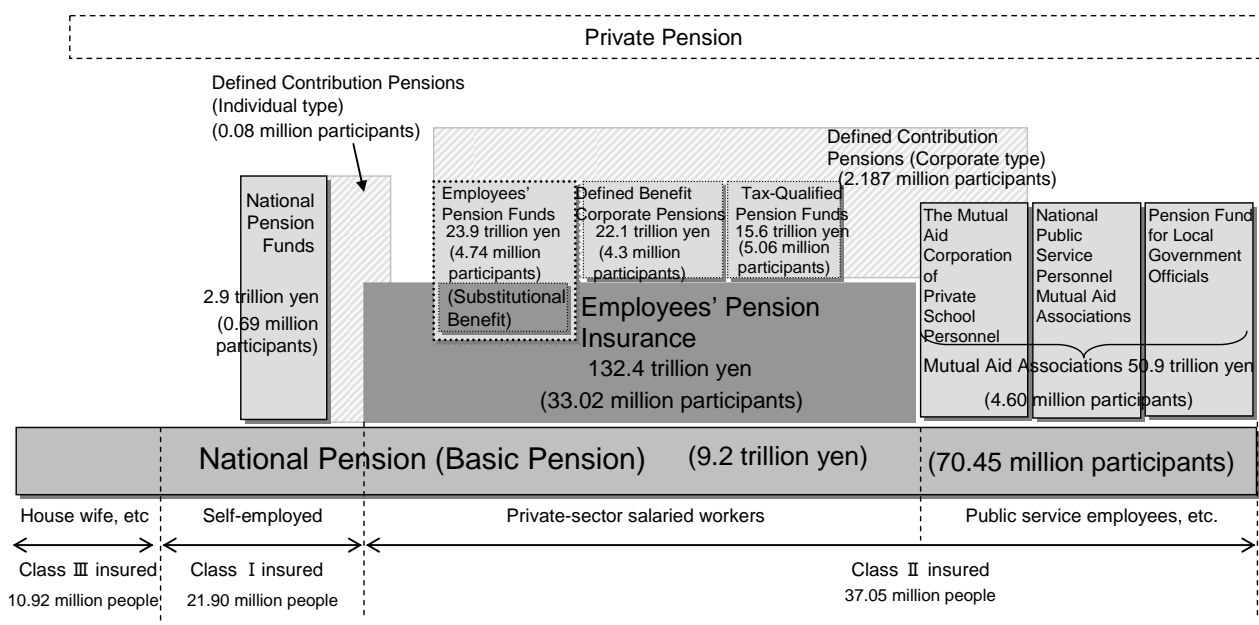
continued to be managed for more than 40 years, have to be changed to other pension plans or terminated. Moreover Japanese baby-boomers born in 1947-49 will reach age 65 and start to receive social security and corporate pension benefits for some corporations from 2012. This means that expenditure of corporate pension plans will rapidly increase. If a corporate pension plan faces underfunded, it should be required to contribute extra burden. This would be very large burden for employers and they might rethink their corporate pension plans to be shirked or terminated. In addition, the post-employment accounting, which is now under discussion at the IASB, will be applied around 2012. As a result the year 2012 might become very important year in the Japanese corporate pension plan history.

2. Japanese Corporate Pension Plans

2.1 Japanese Pension System

The Figure 1 shows the structure of the social security and private pension system in Japan.

Figure 1: The Structure of the Pension System in Japan



Notes:

- The number of participants and reserves are as of the end of March, 2006.
- Public Pension Schemes in Japan are composed of two state pension schemes (National Pension and Employees' Pension Insurance) and three Mutual Aid Pension Plans.
- Defined Contribution pensions took effect on October 1, 2001. Defined-Benefit Corporate Pensions took effect on April 1, 2002. Tax-Qualified Pension Plans (15.6 trillion yen, 5.06 million participants) will change over to other Company Pension Plans etc till March, 2012.
- Breakdown of Mutual Aid Associations
 - National Public Service Personnel Mutual Aid Associations (8.8 trillion yen, 1.08 million participants)
 - Pension Fund for Local Government Officials (38.8 trillion yen, 3.07 million participants)
 - The Mutual Aid Corporation of Private School Personnel (3.3 trillion yen, 0.45 million participants)

Source: Ministry of Health, Labour and Welfare. Pension Fund Association

The Japanese pension system is composed of four-tiers. First tier is a flat rate social security pension system financed by pay-as-you-go (PAYGO) with a state subsidy named National Pension (or sometimes called Basic Pension: BP). The BP covers all residents of people aged 20 years old and over staying in Japan. Second tier is salary related, social security pension system financed by partially funding (Employees' Pension Insurance: EPI). The coverage of the EPI system is employed persons in private corporations. Third tier is corporate pension plans such as the EPFs, the TQPPs, the Defined Benefit Corporate Pension Plans (the DBCPPs) and the Defined Contribution Pension Plans (the DCPs). Those plans are provided by employers voluntarily, financed by funding system. Fourth tier is private pension plans and personal savings.

Review of Japanese Corporate Pension Plans

(1) Introduction of the TQPPs and the EPFs

The legislative Japanese corporate pension plans were introduced in 1960s; the TQPPs in 1962 and the EPFs in 1965.

< The Tax Qualified Pension Plans >

The TQPPs was introduced by the Corporate Tax Law Reform of 1962. The purpose of the TQPPs is to provide preferential tax treatment so as to smooth lump-sum payment¹. The TQPPs is a contract-type pension system. Employers who want to introduce the TQPPs have to make pension trust contracts with trust banks, pension insurance contracts with life insurance companies, or pension mutual aid contracts with Japanese Agricultural Mutual Aid Association, and get tax-qualified approval from the Secretary-General of the National Tax Administration.

In the DBCPA in 2001, the TQPPs were decided to be expired in March 2012. Therefore the existing TQPPs should be transferred to other corporate pension plans or just terminated (We will discuss this issue later in Chapter 3).

<The Employees' Pension Funds>

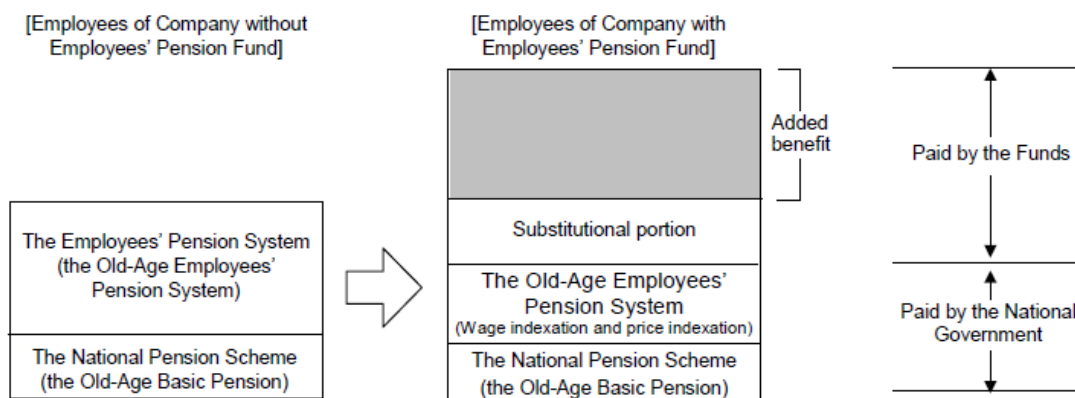
The EPFs were introduced by Employees' Pension Insurance Law Reform of 1965 (effective in October 1966). The main purpose of the EPFs was to offer an additional benefit to the Old-Age Employees' Pension Benefit in Employees' Pension Insurance which was operated by the Japanese Government (see Figure 2). Further, the EPFs system is aimed to secure the pension benefit in addition to the Old-Age Pension of the Employees' Pension Scheme.

Substitutional System (*Daiko System*)

The EPFs provided the benefit of a part of the old-age pension in the EPI Scheme except the payment born by the improvement of the wage and price indexation. This system is named

‘Substitutional System’ (‘*Daiko* System’ in Japanese). The EPFs’ pension benefit is composed of ‘substitutional portion’ which is equal to the amount paid under the old-Age employees’ pension, and ‘additional portion’ which is paid by corporations themselves additionally. The regulation indicated the amount of additional benefit must be at least 50% higher than that of substitutional portion. Employers are tax exempted from paying the premiums for government, namely ‘exemption premium rate’ (see Figure 2).

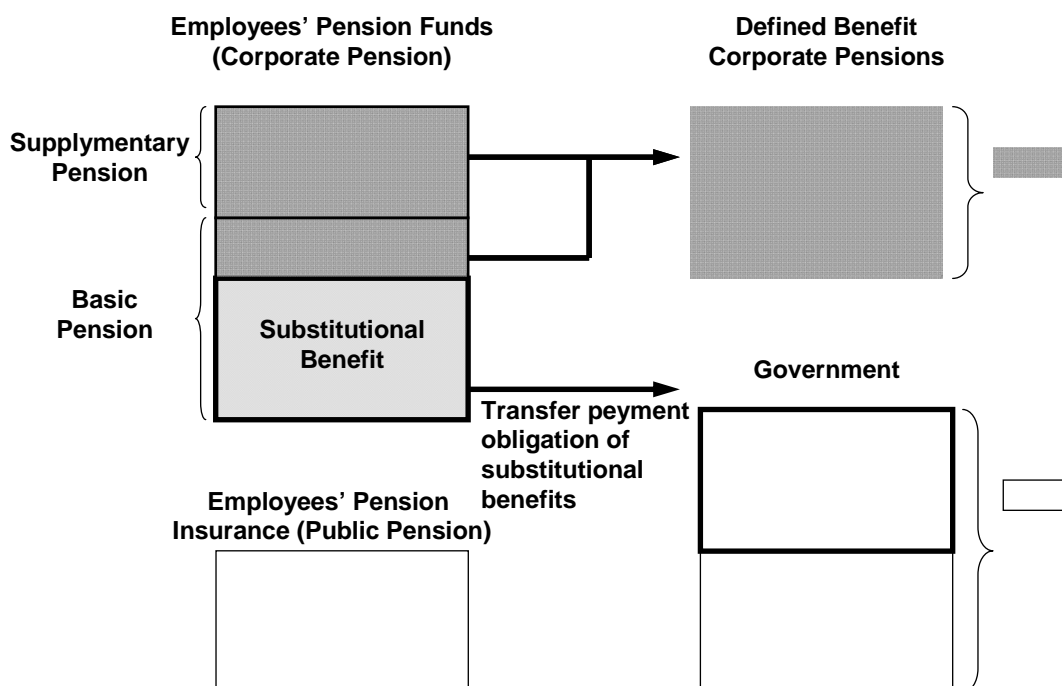
Figure 2: The Structure of the *Daiko* System in the EPFs



Source: Ministry of Health, Labour and Welfare, 'Chapter 9 Overview of the Corporate Pension' pp.130.

Daiko Henjo

Figure 4: The Structure of the *Daiko Henjo* in the EPFs



'*Daiko Henjo*', which literally means refunding the portion of substitutional benefit of the EPFs, means to stop the EPF and transfer pension liability and asset to other pension plans including DBCPAs.

Table 1 shows some characteristics of the EPFs and the TQPPs.

Table 1: Comparison of the EPFs and the TQPPs

	Employees' Pension Fund	Tax-qualified Pension Plan
Law based on	Employees' Pension Insurance Law (Established: 1966)	Corporate Tax Law (Established: 1962)
Established	Established the fund with authorization from the Minister of Health, Labour and	Contracts approved by the Director General of the National Tax Administration
Number of funds,	626 funds (End of March 2007)	32,826 contracts (End of March 2007)
Number of Subscribers	4,625,000 (End of March 2007)	4,434,000 (End of March 2007)
Scale of Reserve	20.7 trillion yen (End of March 2007)	11.7 trillion yen (End of March 2007)
Conditions		
Benefits standard	50% or more of the substitutional portion of Employees' Pension is added to the benefit.	None
Benefit period, etc.	In principle, whole life pension	Over 5 years
Required period for pension	Required period for added pension benefits should not exceed 20 years.	None (Until the End of 1999, the required period for pension benefits was more than 20 years of continuous service)
Reserve standard	Obligation to accumulate reserve in accordance to benefit debt. (Year-on-year financial verification in the accounting term, Recalculation of budget at least once every five years)	Recalculation of budget within 5 years, but no obligation to accumulate reserve.
Obligations of the Trustee	Regulate obligations for faithful duty and prohibits actions which would be contrary to the aim of generating profits.	None
Coordination with the tax system		
Contribution	Employer: Total amount treated as loss Employee: Social insurance premium	Employer: same as left Employee: life insurance premium
Reserve fund	Portions that exceed standards corresponding to 3.23 times the substitutional corresponding portion are subject to 1.173% special corporate tax.*	1.173% special corporate tax applied to portions after the person's premiums exempted.*
Benefits fund	Old-Age Pension benefits: Miscellaneous income tax applied to pension (Public pension, etc. are exempted). Lump-sum payment is taxed as retirement income, etc. (specified amount exempted)	Retirement benefit: Miscellaneous income tax applied to pension (Public pension, etc. are exempted). Lump-sum payment is taxed as retirement income, etc. (specified amount exempted) (Individual contribution not included in both cases)

Source: Ministry of Health, Labour and Welfare, 'Chapter 9 Overview of the Corporate Pension' pp.135.

Following points are major differences between the EPFs and the TQPPs;

(a) Regulatory Agency

The regulatory agency of the EPFs is the Ministry of Health, Labour and Welfare. On the other

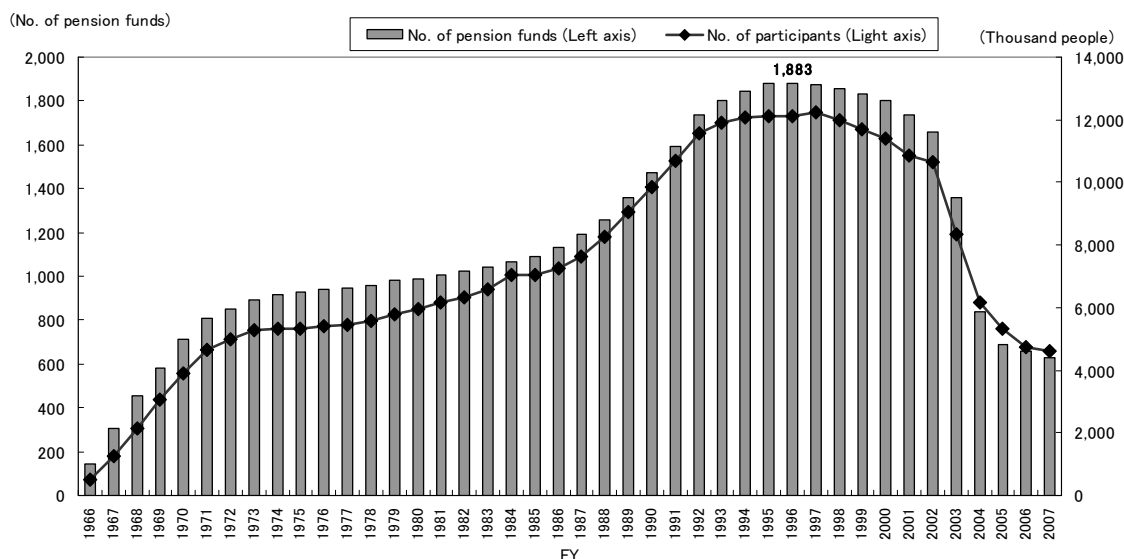
hand, that of the TQPPs is the National Tax Administration.

(b) Obligations

The EPFs are required 1,000 of members or more for single employer plan, and 5,000 or more for multi-employer plan for their establishment. The EPFs also required some obligations in benefit design including level, period fairness and funding standards. The TQPPs were required tax qualified conditions laid down in order for enforcement of corporate tax law, and have weaker funding obligation. Therefore the TQPPs were easier to introduce compared to the EPFs and particularly for small and middle size corporations.

(2) Expansion of the EPFs and the TQPPs

Figure4: Numbers of the EPFs and their Participants



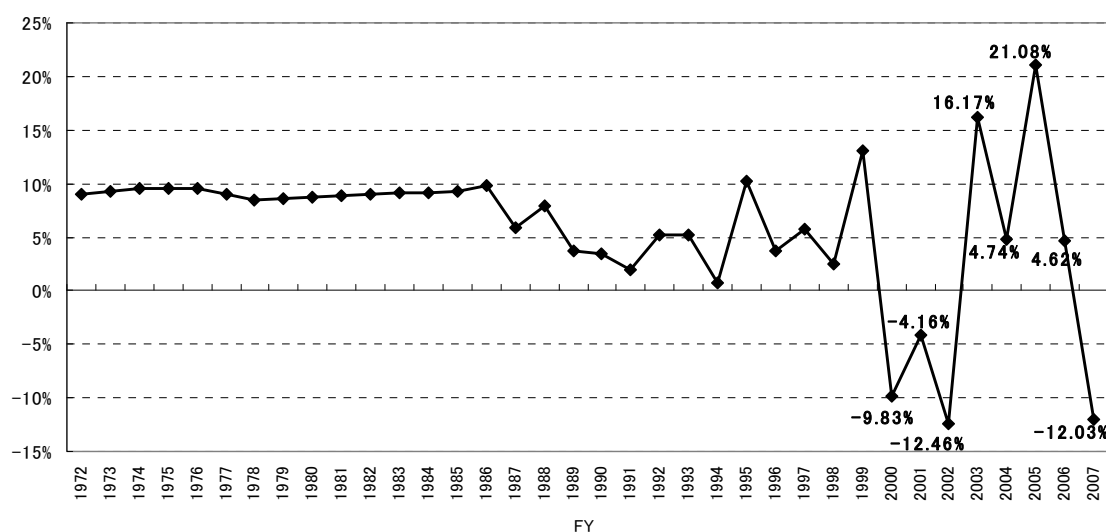
Source: Pension Fund Association

The EPFs and the TQPPs had been rapidly increased in late 1960s and in late 1980s (See Figure 4). Investment and management deregulation had facilitated the EPFs' expansion in late 1980s². The EPFs had reached 1,878 Funds and 12million participants at their peak in 1996. The TQPPs had 92 thousand contracts and 11 million participants in 1996. More than half employees were covered by corporate pension plans then.

(3) Corporate Pension Crisis around 2000

'Perfect Storm' strongly affected funding status of corporate pension plans in US and UK in 2000-02. Japanese corporate pension plans were also affected. The EPFs had experienced consecutive three year negative investment performance in 2000-02; -9.83% in 2000, -12.46% in 2001, and -4.16% in 2002 (see Figure 5).

Figure 5: Investment Performance of the EPFs



Note: Figures are on the book value basis until 1986.

Source: Pension Fund Association

Under the stagnant economy and severe financial conditions of corporate pension plans in the 1990s, the Corporate Pension Crisis was generated. Nakada (2004) pointed the following factors which generated crisis,

(a) Low Investment Performance

Historically low-interest policy by Central Bank of Japan and sluggish stock market due to the long-term stagnant economy generated the low investment performance to pension plans (negative performance during 2000-02), and increased the underfunded pension plans.

(b) Reduction/Abolition of Corporate Pension Plans

Long-term stagnant economy also gave corporations the tendencies to reduce pension plan burden for improving corporate financial situation, and to restruct (lay-off) employees and hire part-time job workers, and abolish corporate pension plans to reduce their cost.

(c) Change of Traditional Japanese Employment Customs

The corporations have attached the importance of market mechanism since 1990s, which generated the change from Japanese style management (lifetime or long-term employment, seniority-based pay system, and enterprise union) to American style one (labor market employment (short-term employment) and performance-based pay system). Employees also became to prefer current wages than future benefits or money backed saving system (defined contribution (DC) system) than contract for the future (DB system).

(d) Introduction of Retirement Benefits Accounting Standards

Introduction of accounting standards for retirement benefits in 2000 required to disclose the underfunded situation of corporate retirement benefit plans including pension plans in terms of accounts, which accelerated the crisis.

Though the Japanese government took several measures for the EPFs, including relaxation of deficiency level and revaluation standards³, the crisis was so severe that so-called partial remedy could not improve their symptoms. This situation drove introduction of two corporate pension systems as follows.

(4) Introduction of DB and DC Pension Laws

Two corporate pension system bills passed the Diet in June 2001. The Defined Contribution Pension Act (the DCPA) was enacted in October 2001 and the Defined Benefit Corporation Pension Act (the DBCPA) was enacted in April 2002. The cash balance plan was also introduced as a kind of a DB plan.

<The Defined Benefit Corporation Pension Act>

The crisis brought cases in which pension assets were not assured enough at the time of bankruptcy. As a result, an adjustment of the system to protect the rights to receive benefits (eligibility) became necessary, and this situation drove establishment of standard measures for eligibility protection such as reserve obligations in the DBCPA.

The purpose of the DBCPA is to introduce the common framework to protect employees' benefit rights covered by DB type corporate pension plans; both the EPFs and the DBCPPs. The DBCPA provides (1) funding requirements, (2) fiduciary responsibility, and (3) reporting and disclosure signed by Certified Pension Actuaries.

The DBCPA admits '*Daiko-Henjo*' for the EPFs. Moreover the new TQPPs' contracts will not be approved and the existing TQPPs shall be transferred to other systems including the DBCPPs, the DCPPs, and the Smaller Enterprise Retirement Allowance Mutual Aid System (the SERAMAS) within 10 years (until March 31, 2012) by the DBCPA.

<The Defined Contribution Pension Act>

Until a new two corporate pension laws were introduced, DB type corporate pension plans had not always been adopted by small and medium sized companies and self-employed persons. Also, the transfer of pension assets in case of job change was not assured, which complicated measures to

respond to labour shifts. In order to cope with these problems, the introduction of the contribution-based pension plan had been examined and was introduced by the DCPA.

The purpose of the DCPA is to introduce DC pension plans as a new option for retirement income more stable as well as corresponding changes of socio-economic situation such as lower fertility rate, population ageing, diversifying of life in old-age period and fluidity of employment. The contributions of the DCPPs are specified for each employee, and the benefits of ones are determined based on the sum of the contributions and the investment profits managed by participants themselves. Features of the DCPPs are as follows;

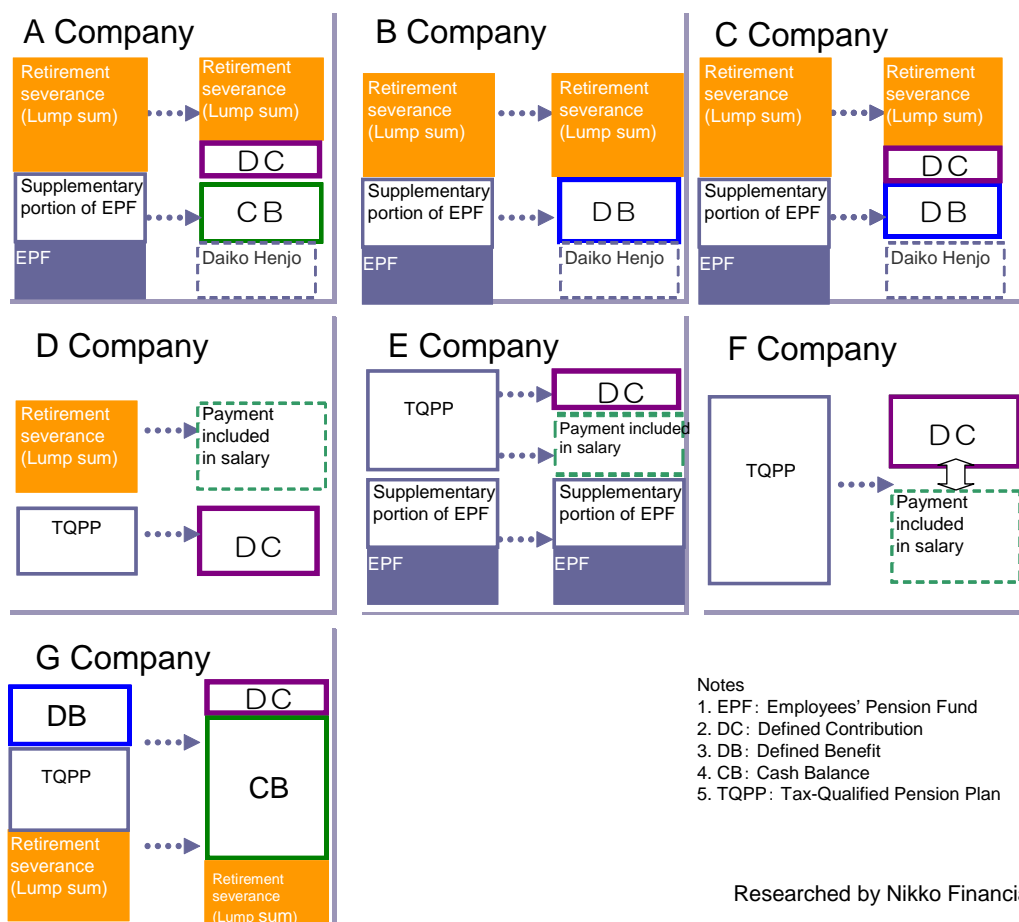
- (a) The DCPPs pension plans are easier to introduce for the SMEs compared to DB type plans,
- (b) The DCPPs can easy to correspond to portability, transferring pension assets in case of job change. Because the contributions are clearly specified for each employee, and
- (c) For persons who cannot participate in the system such as No.3 insured persons (housewives, etc.), assets associated with the participants are transferred to the National Pension Fund Federation.

(5) New Era in Corporate Pension System in Japan

Those reforms generated a new era in corporate pension systems of Japan that employers and employees can adopt their pension plans by themselves from a wide variety of option (see Figure 6). Important points of reforms which affected the decisions of employers and employees would be as follows;

- (a) To be admitted the '*Daiko-Henjo*'; numbers of the EPFs and their participants have decrease dramatically (see Figure 4),
- (b) To be introduced new type pension plans such as defined contribution plans and cash balance plans,
- (c) To be required for the TQPPs to transfer to other corporate pension plans or to terminate them (discussed in the Chapter 3), and
- (d) To be affected the decisions of employers and employees that the underfunded status was revealed under newly introduced retirement benefit accounts, and that was thought to generate the increase in fund raising cost.

Figure 6: Example of Corporate Pension designs



2.3 Some Features of Japanese Corporate Pension Plans as Compared with US and UK

Nakada and Arimori (2008) indicated that three countries, the U.S., the U.K and Japan, have experienced the shift from DB to DC plans since around 2000.

(1) What social and economic conditions stimulated the shift from DB to DC plans?

According to the three countries' experiences, there are several social and economic conditions to stimulate the shift from DB to DC plans; (a) under-funding, (b) DB plan regulations, and (c) stock market volatility.

(a) Under-funding

As a result of a period of relatively poor investment performance and a number of other factors, the number of underfunded DB plans increased around 2000 in all three countries. Some DB plan sponsors who wanted to reduce DB plan burdens or cut pension costs decided to shift their

pension plans to DC plans. While DB pension assets for both past and future services can be transferred to DC plans in Japan, DC plans are introduced only for new participants or future service in the U.S. and U.K.

(b) DB plan regulations

Recently DB plan regulations have become stricter than before: increased funding requirements, changing retirement benefit accounting standard to mark-to-market, increasing premiums for the pension guarantee fund, etc. New accounting standard require disclosure of an underfunded situation of corporate retirement benefit plans. Therefore it costs more than before to maintain DB plans. Combined with long-term recession (in Japan) or under-funding problem (in three countries), DB plans faced a difficult time to keep going after 2000.

(c) Stock Market

In the U.S., the number of DC plans increased in the 1990s and after 2002. In the 1990s the U.S. stock market increased rapidly, reflecting the boom in the U.S. economy. After 2002, after the so-called 'perfect storm', the rate of investment return recovered. High performance in the stock market is one of the conditions to encourage the spread of DC plans.

(2) Differences among Japan, the U.S. and the U.K.

There are some differences about the shift from DB to DC plans among three countries.

First, in Japan the number of the shift from DB to DC plans is limited compared to that of in the U.S. and the U.K. DB plans are suitable for corporations or industries whose employment system is seniority-based and lifetime employment which is Japanese traditional style management. On the other hand, DC plans are suitable for corporations or industries whose employees often switch their job, because DC plans' participants can transfer their pension account on changing job (so called 'portability'). Though employment policy is changing from Japanese style management to American style one in Japan, Japanese style management is still majority, which may prevent the shift from DB to DC plans rapidly in Japan. Moreover some Japanese employers do not want to adopt DC plans because they do not like the heavy burden of investment education needed for DC participants and the high costs of plan administration. Japanese employers also do not want to burden employees with investment risk.

Second, in Japan benefit level after corporate pension reforms, changing DB plans toward DC plans is not likely to be reduced significantly.

Third is that DC plans are likely introduced on behalf of the portion of DB plans in Japan. For example, Japanese large corporations do ‘Daiko Henjo’ and introduce the DCPPs instead of a portion of ‘additional benefit’ of the EPFs (see Figure 6).

Fourth is that, as mention above, while DB pension assets for both past and future service can be transferred to DC plans in Japan, DC plans are introduced only for new participants or future service in the U.S. and U.K. In the U.K., average contribution of DC plans is about a half of that of DB plans. Therefore the shift from DB to DC plans in the U.K. means significant reduction of corporate pension benefits.

3. Future Development of Japanese Corporate Pension Plans

3.1 Main Scenario of Future Development

Which corporate pension plans the TQPPs will be transferred is one of key points to discuss the future development of Japanese corporate pension plans. The TQPPs have five options; (1)transferred to the EPFs, (2)transferred to the DBCPPs, (3)transferred to the DCPPs, (4)transferred to the SERAMAS, and (5)just be terminated.

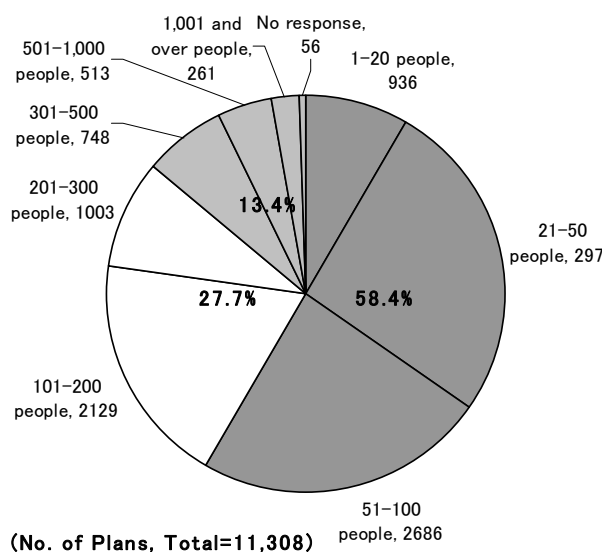
(1) The Result of the Fact-finding of Transaction of the TQPPs

The Ministry of Health, Labour and Welfare conducted the survey on the transactions of the TQPPs in 2009. We will see some results hereafter (See references 3 and 4 for detailed results).

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(a) Number of Full Time Employees

Figure 7: Number of Full Time Employees in the Companies which provide the TQPPs



Source: The Ministry of Health, Labour and Welfare ‘The Fact-finding of Transaction of the TQPPs: Employer Version’

According to ‘The Fact-finding of Transaction of the TQPPs: Employer Version’ (‘The Fact-finding (A)’ hereafter)⁴, 58.4% of companies which provide the TQPPs employ under 100 people. The TQPPs are likely to be introduced in the SMEs.

(b) Concomitantly-used Retirement Benefits System with the TQPPs

Single use of TQPPs is only 47% among employers who provide them as their retirement benefit system. The combinations of the EPFs (21%) or the SERAMAS (17%) are more common. On the other hand, number of employers who provide newly introduced corporate pension plans in addition to the TQPPs is small; the DBCPPs is 445 (3.9%) and the DCPPs is 255 (2.3%).

Table 8: Concomitantly-used Retirement Benefits System with the TQPPs

(Total=11,308)

	The TQPPs Only	The SERAMAS	The DBCPPs	The DCPPs	The EPFs	The Specific Retirement Mutual Aid	Others	No response
No. of Plans	5,313	1,894	445	255	2,409	598	1,044	472
%	47.0%	16.7%	3.9%	2.3%	21.3%	5.3%	9.2%	4.2%

Source: The Ministry of Health, Labour and Welfare ‘The Fact-finding of Transaction of the TQPPs: Employer Version’

(c) Awareness toward abolishment of the TQPPs

Almost all (96.4%) employers know the 2002 corporate pension reform including the abolishment of the TQPPs.

Table 9: Awareness toward abolishment of the TQPPs

(Total=11,308)

	Acknowledged	Not Acknowledged about deadline of termination	Not Acknowledged at all	No response
No. of Plans	10,903	279	100	26
%	96.4%	2.5%	0.9%	0.2%

Source: The Ministry of Health, Labour and Welfare ‘The Fact-finding of Transaction of the TQPPs: Employer Version’

(d) Correspondence to transaction of the TQPPs

Fact-finding(A) shows that (1) 57% of employers have already considered transferring the TQPPs to other corporate pension plans, (2) 26% of them just decided to transfer the TQPPs, and (3) 6% of them decided to terminate the TQPPs. As just described, 89% of employers have already done some sort of correspondence before abolishment of the TQPPs. On the other hand, 9% of them have not done anything until now. Considering the result by the size of employees, smaller companies do not seem to decide the transaction to the new system, or even decide anything until now either.

Table 10: Correspondence to transaction of the TQPPs

(No. of employers, %)								
Total	Under Consideration of the transferring to other corporate pension plans	Decided the corporate pension plans transferred to, but did not go ahead	Decided the corporate pension plans transferred to, and launched	Decided to terminate the TQPPs, but did not go ahead	Decided to terminate the TQPPs, and launched	Under Consideration of the transferring to other corporate pension plans	No response	Elsewhere
11,182	6,483	1,332	1,539	465	160	971	232	126
100%	58.0%	11.9%	13.8%	4.2%	1.4%	8.7%	2.1%	
		25.7%			5.6%			

(No. of employers, %)										
	Total	1-20 people	21-50 people	51-100 people	101-200 people	201-300 people	301-500 people	501-1,000 people	1,001 and over	No response
Do not consider at all	971	136	356	241	117	54	35	20	7	5
	100.0%	14.0%	36.7%	24.8%	12.0%	5.6%	3.6%	2.1%	0.7%	0.5%
Under Consideration of the transferring to other corporate pension plans	6,483	467	1,642	1,595	1,253	589	434	316	152	35
	100.0%	7.2%	25.3%	24.6%	19.3%	9.1%	6.7%	4.9%	2.3%	0.5%
Decided to terminate the TQPPs, but did not go ahead	465	81	202	98	55	9	14	4	0	2
	100.0%	17.4%	43.4%	21.1%	11.8%	1.9%	3.0%	0.9%	0.0%	0.4%
Decided to terminate the TQPPs, and launched	160	28	52	38	26	7	6	2	0	1
	100.0%	17.5%	32.5%	23.8%	16.3%	4.4%	3.8%	1.3%	0.0%	0.6%
Decided the corporate pension plans transferred to , but did not go ahead	1,332	101	377	317	238	120	91	53	29	6
	100.0%	7.6%	28.3%	23.8%	17.9%	9.0%	6.8%	4.0%	2.2%	0.5%
Decided the corporate pension plans transferred to , and launched	1,539	70	245	306	383	195	157	112	66	5
	100.0%	4.5%	15.9%	19.9%	24.9%	12.7%	10.2%	7.3%	4.3%	0.3%

Source: The Ministry of Health, Labour and Welfare ‘The Fact-finding of Transaction of the TQPPs: Employer Version’

(e) Reasons for Termination

The most reasons why the TQPP was terminated was that employers had other retirement benefit systems and provided sufficient retirement benefits through them. The forty one percent of employers who had other retirement systems and terminated their TQPP answered that reason in the survey. Second largest reason was that employers could no afford to provide extra costs such as TQPP’s additional contributions (37.6% of employers without any retirement systems other than the TQPPs).

Table 11: Reasons for Termination

(No. of employers, %)								
	Total	Provide other retirement benefit systems with sufficient benefits	Transaction procedures are so complex and difficult	Other retirement benefits systems are too complex to manage	Cannot be afford to provide extra costs such as paying additional contributions	Cannot decide retirement systems to which the TQPPs should transfer, because of lack of sufficient information about other retirement systems	Others	No response
Total	625 100.0%	204 32.6%	48 7.7%	96 15.4%	167 26.7%	31 5.0%	147 23.5%	67 10.7%
Without any retirement systems other than the TQPPs (provide the TQPPs only)	165 100.0%	16 9.7%	16 9.7%	21 12.7%	62 37.6%	11 6.7%	50 30.3%	19 11.5%
With combined retirement systems	440 100.0%	182 41.4%	31 7.0%	74 16.8%	97 22.0%	19 4.3%	94 21.4%	44 10.0%

Source: The Ministry of Health, Labour and Welfare ‘The Fact-finding of Transaction of the TQPPs: Employer Version’

(f) Schedule after termination of the TQPPs

Fact-finding(A) shows that many employers will correspond to retirement benefits with other ways; (1) 44.1% of employers with combined retirement systems will provide retirement benefits through combined existing retirement systems, (2) 31.5% of employers without any retirement systems other than the TQPPs will fund money by book reserve systems, etc., (3) 19.0% of employers will use private life insurance products to provide retirement benefits, And (4) only 8.5% of employers will abolish retirement benefits themselves.

Table 12: Schedule after termination of the TQPPs

(No. of employers, %)								
	Total	Abolish retirement benefits themselves	Provide retirement benefits through combined existing retirement systems	Fund money by book reserve systems, etc.	Use private life insurance products to provide retirement benefits	Not yet determined	Others	No response
Total	625 100.0%	53 8.5%	202 32.3%	84 13.4%	119 19.0%	48 7.7%	53 8.5%	66 10.6%
Without any retirement systems other than the TQPPs (provide the TQPPs only)	165 100.0%	35 21.2%	5 3.0%	52 31.5%	27 16.4%	16 9.7%	15 9.1%	15 9.1%
With combined retirement systems	440 100.0%	15 3.4%	194 44.1%	29 6.6%	87 19.8%	29 6.6%	38 8.6%	48 10.9%

Source: The Ministry of Health, Labour and Welfare ‘The Fact-finding of Transaction of the TQPPs: Employer Version’

(g) Retirement systems of post transition of the TQPPs

Fact-finding (A) also shows that (1)46.2% of employers, who decide to transfer the TQPPs to other corporate pension plans, choose the DBCPPs, (2) 34.6% of them choose the SERAMAS, and (3)14.7% of them choose the DCPPs. According to results of the Fact-finding (A), employers with less 100 employees are likely to transfer to the SERAMAS, and that with more than 100 employees plan to transfer to the DBCPPs or the DCPPs.

Table 13: Retirement systems of post transition of the TQPPs

(Total=11,308)

	Total	The DBCPPs	The DCPPs	The EPFs	The SERAMAS	No response	Elsewhere
No. of Plans	2871	1,326	423	93	993	213	8,437
%	100%	46.2%	14.7%	3.2%	34.6%	7.4%	293.9%

Source: The Ministry of Health, Labour and Welfare ‘The Fact-finding of Transaction of the TQPPs: Employer Version’

The largest reason to select the DBCPPs instead of the TQPPs is that it is easy to introduce because both the TQPPs and the DBCPPs are DB type plans. The second largest reason is that the DBCPPs are useful to protect employees’ pension benefit amount. The Fact-finding (A) points out that the DBCPPs are desirable alternative plans for both employers and employees.

Table 14: Reasons to select the DBCPPs instead of the TQPPs

(Total=1,326, No. of employers, %)

	No. of employers	%
It is easy to introduce because both the TQPPs and the DBCPPs are DB type plans	1,155	87.1%
Deregulations such as unbundled asset management make easier to transfer the TQPPs to the DBCPPs	18	1.4%
The DBCPPs are useful to protect employees’ pension benefit amount	877	66.1%
The benefit design of the DBCPPs adopted by labor-management agreements is unrestrained	45	3.4%
The DBCPPs enable to reduce contribution burden if investment performance is high	22	1.7%
Others	44	3.3%
No response	25	1.9%
Elsewhere	-	-
Accumulated total	2,186	164.9%

Source: The Ministry of Health, Labour and Welfare ‘The Fact-finding of Transaction of the TQPPs: Employer Version’

The most reason to select the DCPPs instead of the TQPPs is that it is possible to predict future contribution burden in the DCPPs (71.6%).

Table 15: Reasons to select the DCPPs instead of the TQPPs

(Total=423, No. of employers, %)

	No. of employers	%
It is possible to predict future contribution burden in the DCPPs	303	71.6%
It is easy to introduce the DCPPs instead of the TQPPs because there is no complicate actuarial circulation	81	19.1%
There is no necessary to declare retirement benefit allowance on the balance sheet	83	19.6%
Others	40	9.5%
No response	31	7.3%
Elsewhere	10,885	-
Accumulated total	672	158.9%

Source: The Ministry of Health, Labour and Welfare 'The Fact-finding of Transaction of the TQPPs: Employer Version'

Moreover the largest reason to select the SERAMAS instead of the TQPPs is that its benefit structure is simple and easy to understand (41.8%). The second largest reason is that the SERAMAS is provided by an independent administrative institution, which gives employers a sense of ease (38.1%). The third largest reason is that it is difficult to manage a corporate pension plan independently (28.3%). The SERAMAS is attractive systems in terms that employers do not need to bear management responsibility by themselves.

Table 16: Reasons to select the SERAMAS instead of the TQPPs

(Total=993, No. of employers, %)

	No. of employers	%
The TQPPs is that its benefit structure is simple and easy to understand	415	41.8%
The SERAMAS is provided by an independent administrative institution, which gives employers a sense of ease	378	38.1%
It is difficult to manage a corporate pension plan independently	281	28.3%
The condition which underfunded should be dissolved does not required to be transferred toward the SERAMAS	170	17.1%
Employers can receive subsidies toward contributions after they join the SERAMAS	121	12.2%
The number of employer who transfer the TQPPS to the SERAMAS is the most	157	15.8%
Others	50	5.0%
No response	90	9.1%
Elsewhere	10,315	-
Accumulated total	1,662	167.4%

Source: The Ministry of Health, Labour and Welfare 'The Fact-finding of Transaction of the TQPPs: Employer Version'

(h) Number of the TQPPs' contracts and their participants

According to 'The Fact-finding of Transaction of the TQPPs: Trustee Version' ('The Fact-finding (B)' hereafter)⁵, total number of the survived TQPPs and their participants are about 30 thousand plans (survival rate on contracts basis 40%) and about 3,973 thousand people (that of

participant basis is 43%) respectively. Ninety percent of survived contracts are provided by corporations whose number of employees is under 300 people. The TQPPs mostly remain in the SMEs.

Table 17: Number of the TQPPs' contracts and their participants

Trustee	No. of Contracts as of March 31, 2000	No. of Contracts as of September 30, 2008	Survival rate (Contracts base)	No. of survival participants	Survival rate (Participants base)
Life Insurance	63,918	24,020	38%	2,166,562	56%
Trust Bank	9,082	4,932	54%	1,713,812	33%
National Agricultural Mutual Aid Association	581	369	64%	93,086	78%
Total	73,581	29,321	40%	3,973,460	43%

Source: The Ministry of Health, Labour and Welfare 'The Fact-finding of Transaction of the TQPPs: Trustee Version'

Moreover, according to the survey conducted by the Trust Bank Association, total asset amount of the TQPPs in March 31 2009 was 8,131.9 billion yen (85 billion dollar when 1\$= 95 yen), which reduced by 30.8% compare with the number in March 31, 2008.

(i) Transaction situation

Table 18: Transaction situation, according to hearing result from life insurance companies

No. of employees		Corporate pension plans				The SERAMAS	Termination	Total	%
		The DBCPPs	The DCPs	The EPFs					
under 100 people	No. of contracts	2,386	690	1,648	48	11,900	18,471	32,757	90.7%
	%	7.3%	2.1%	5.0%	0.1%	36.3%	56.4%	100%	
100-300	No. of contracts	1,321	694	613	14	443	789	2,553	7.1%
	%	51.7%	27.2%	24.0%	0.5%	17.4%	30.9%	100%	
300-500	No. of contracts	289	160	124	5	28	93	410	1.1%
	%	70.5%	39.0%	30.2%	1.2%	6.8%	22.7%	100%	
500-1,000	No. of contracts	177	97	80	0	4	40	221	0.6%
	%	80.1%	43.9%	36.2%	0.0%	1.8%	18.1%	100%	
1,000 people and over	No. of contracts	154	99	51	4	0	29	183	0.5%
	%	84.2%	54.1%	27.9%	2.2%	0.0%	15.8%	100%	
Total	No. of contracts	4,327	1,740	2,516	71	12,375	19,422	36,124	100%
	%	12.0%	4.8%	7.0%	0.2%	34.3%	53.8%	100%	

Source: The Ministry of Health, Labour and Welfare 'The Fact-finding of Transaction of the TQPPs: Trustee Version'

According to hearing result from life insurance companies (36,124 contracts), large companies are likely to transfer the TQPPs to corporate pension plans; in the case of corporations with 100-300

employees, termination is 31%, the DBCPPs is 27%, and corporate pension plans including the DBCPPs is 52%. On the other hand, in the case of that with under 100 employees, 56%, 2%, and 7% respectively.

According to Table 19, ‘Termination’ was the most major option in 2002-2003 (78.8% and 68.3% respectively) among five options for TQPPs. After that, the share of termination has been decreasing dramatically and recorded 33.8% in 2007. On the other hand, the TQPP’s transfer to the corporate pension plans has gradually increasing. The transfer to DCPCPs rate reached s 11.5% at their peak in 2006. According to the Fact-finding (B), the number of the DBCPPs has been increasing in double and marked 917 plans (17.9%) in 2007.

Table 19: Transaction situation in 2002-2007, according to hearing result from life insurance companies

No. of employees		Corporate pension plans				The SERAMAS	Termination	Total
		The DBCPPs	The DCPPs	The EPFs				
2002	No. of contracts	110	2	85	23	1,213	4,906	6,229
	%	1.8%	0.0%	1.4%	0.4%	19.5%	78.8%	100%
2003	No. of contracts	292	38	238	16	1835	4587	6,714
	%	4.3%	0.6%	3.5%	0.2%	27.3%	68.3%	100%
2004	No. of contracts	639	144	488	7	1556	3418	5,613
	%	11.4%	2.6%	8.7%	0.1%	27.7%	60.9%	100%
2005	No. of contracts	805	220	584	1	3414	2744	6,963
	%	11.6%	3.2%	8.4%	0.0%	49.0%	39.4%	100%
2006	No. of contracts	1,054	419	629	6	2390	2035	5,479
	%	19.2%	7.6%	11.5%	0.1%	43.6%	37.1%	100%
2007	No. of contracts	1,427	917	492	18	1967	1732	5,126
	%	27.8%	17.9%	9.6%	0.4%	38.4%	33.8%	100%
Total	No. of contracts	4,327	1,740	2,516	71	12,375	19,422	36,124
	%	12.0%	4.8%	7.0%	0.2%	34.3%	53.8%	100%

Source: The Ministry of Health, Labour and Welfare ‘The Fact-finding of Transaction of the TQPPs: Trustee Version’

(j) Transaction Schedule

According to the Fact-finding (B), 1,703 contracts will transfer to the DBCPPs in the TQPPs in 2008-2011 (including number of contracts which have not decided transaction year yet). The Fact-finding (B) points out that number of the DBCPPs will increase rapidly.

(2) Feature of the TQPPs

We can summarize the following features of the Fact-Findings on the TQPPs conducted by the government in 2009;

(a) What kind of corporations have the TQPPs introduced?

About 60 % of the TQPPs have been introduced in the SMEs. About 50% of employers who introduced the TQPPs provided the TQPPs solely as a retirement benefit system.

(b) Which type of corporations has not terminated their TQPPs?

Around 40% of corporations have not terminated their TQPPs. About 90% of small companies with 300 or less employees have kept their TQPPs. yet According to Ministry of Health, Labour and Welfare, it takes about 1 year to transfer or terminate the TQPPs, and there is only 2.5 years until March 31 2012. Ministry of Health, Labour and Welfare and other organizations⁶ established the Support Center of Transaction of the TQPPs in January 2009 for the TQPPs to facilitate to transfer to the other corporate pension plans, not to be terminated. More employers try to transfer the TQPPs to the DBCPPs, not to terminate themselves.

(c) Which corporate pension plans have been selected instead of the TQPPs?

The DBCPPs is the most popular plans to be transferred from the TQPPs. The second popular plan is the SERAMAS, and the third is the DCPPs and fourth is the EPFs. Large corporations are likely to choose the DBCPPs. The SMEs are likely to introduce the SERAMAS or terminate their plans.

3.2 Discussion

According to the above fact-finding results and discussions, we can suggest the following statements about Japanese corporate pension plans;

(1) The year 2012 will be a turning point for the new corporate pension era

According to the above data, the DBCPPs, the DCPPs, and the SERAMAS will play roles as takeover plans; 46.2% of employers, who decide to transfer the TQPPs to other corporate pension plans, choose the DBCPPs, 34.6% of them choose the SERAMAS, and 14.7% of them choose the DCPPs. The EPFs will also be selected as an optional plan. We might say that the year 2012 will be a turning point when the new corporate pension plans, the DBCPPs and the DCPPs, will become mainstream corporate pension plans instead of former mainstream plans such as the EPFs and the TQPPs.

(2) Corporate pension reform has successfully enriched the protection of employees' pension benefit rights

The purpose of the DBCPA is to introduce the common framework to protect employees' benefit rights. In terms of protecting employees' pension benefit right, the DBCPPs are more preferable than the TQPPs. According to above data, the DBCPPs become more important option for large corporations; 4.8% of employers who carry out to transfer or terminate their TQPPs choose the DBCPPs, and by the size of corporation, 50% of large corporations transfer their TQPPs to the DBCPPs. Recently the numbers of the DBCPPs which are transferred from the TQPPs has been increasing rapidly.

One of purposes to introduce the DBCPPs is that the DBCPPs should be takeover plans of the TQPPs. According to the fact-finding results, this purpose would become realized somehow. Moreover Corporate pension reform has successfully enriched the protection of employees' pension benefit rights through increasing the DBCPPs.

(3) Inadequacy of retirement benefits

Abolishment of the TQPPs may reduce retirement benefit, which means retirement benefits may become inadequate in some beneficiaries. Most the SMEs' employers decided to terminate their TQPPs at all, and some employers do not provide any takeover plans or pension products; they just cut retirement benefit amounts correspond to that of the TQPPs.

Corporate pension plans play important roles in receiving retirement incomes, and as we mention above, abolishment of the TQPPs would provide successful corporate pension reform in Japan. However not all employees are available corporate pension plans and they are likely to get inadequate retirement benefits. Japanese Government should also provide more opportunities for those who have no corporate pension plans so as to create their retirement benefits by themselves; e.g. increasing upper limit of contribution in private type of the DCPPs.

(4) How affects for the shift from DB to DC plans?

Abolishment of the TQPPs would not drive the shift from DB to DC plans in the short term. According to the fact-findings, most employers decide to transfer their TQPPs to DB type pension plans (the DBCPPs and the SERAMAS). They are likely to prefer DB plans other than DC plans.

However the shift form DB to DC plans may occur in a longer term. As mention above, the year 2012 is the time that baby-boomers will start to reserve corporate pension plans in full swing and corporate burden of pension benefit expenditure will become larger rapidly. Employers who

provide DB type pension plans must burden all investment risk, which become more severe problem after 2012. As a result, some employers consider more corporate pension reforms, changing DB plans into DC plans. In the long term, the year 2012 problem and the abolishment of the TQPPs may drive the shift from DB to DC plans in Japan.

4. Concluding Remarks

We presented that the year 2012 will be a very important year in the Japanese corporate pension history, because many events including pension plan reforms will concentrate in or around 2012;

- (1) TQPP will be expired in March 2012. It also means that ten-year transitional period after corporate pension reforms at the beginning of 21st century will be ended and new Japanese corporate pension era will start,
- (2) Baby boomers will reach 65 and start receiving pension benefits. It means the Japanese corporate pension plans will enter the pay-out phase from accumulating phase, and
- (3) New post-retirement accounting standards, now under discussion, will be applied around 2012. It is difficult to predict the Japanese corporate pension plans and their financing which actuaries have keen interests in that era in actual. But we could say at least that they would be more market-oriented and internationalized. We would like to imagine that they will be more common and developed in full then if we are allowed to try actuarial guess.

The year 2012 is the epoch year in terms that many events mentioned above will occur at the same time. Employers and who relate to corporate pension field should understand and prepare for the year 2012 issues.

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¹ Before introduction of the legislative corporate pension systems, some Japanese companies provided their own pension system without preferential tax treatment. *Kanebo Spinning Mutual Association* established in 1905 introduced the first modern corporate pension plan in Japan. In that plan, pension benefit was paid by lump-sum, which increased corporate finance burden. Therefore the legislative corporate pension systems with preferential tax treatment was requested in order to make the reserve and retirement benefits payment more easily.

² Deregulation processes were as follows;

(1) Investment deregulation process

1986 Investment Advisors Act Enacted

1996 Statement of Investment Principles Obligated

1997 Assets Valuation by Market Value for the EPFs Introduced, and
Abolishment of investment '5:3:3:2 Regulations'.

(2) Management deregulation process

1986 Appointed Juridical Person Scheme for Pension Plan Administration Introduced

1988 Certified Pension Actuary System Inaugurated

1996 Pluralization of Rebates for the EPFs

1997 Standards for Discontinuation for the EPFs Introduced,
Abolishment of 5.5% regulation,

Introduction of actuarial valuations of assets including smoothing method, and
Introduction of Appointed Certified Pension Actuary System for the EPFs.

³ The EPFs usually used 5.5% as an interest rate for financial valuation because they had subtracted part which had been managed on the basis of 5.5% interest rate. But 5.5% was too high for pension investment to achieve in the severe investment environment, so that the gap between required performance and realized one had been expanded and unfunded volume had been accumulated. In addition to that, the new accounting standards applied to the EPFs' subtracted parts in the same way as other retirement benefit systems, where the discount rates used were ordinarily 2-3%, revealed the huge volume of underfunded liabilities and gave the shock to employers.

To assist deteriorated financial situation of the EPFs due to the causes mentioned above, the government took several measures including relaxation of deficiency level carried forward from 0.5% to 1.0% of 20 year payrolls, or relaxation of standards to require ad hoc revaluation which the unfunded the EPFs are obliged to take.

⁴ The questionnaire of ‘The Fact-finding of Transaction of the TQPPs: Employer Version’ was delivered all employers who made the TQPPs’ contracts as of December 2008, during December 2008 to January 2009. No. of respondent to the survey is 27,953 and no. of valid response is 11,308 (valid response rate is 40.5%).

⁵ The questionnaire of ‘The Fact-finding of Transaction of the TQPPs: Trustee Version’ was delivered to eighteen life insurance companies, five trust bank, and National Agricultural Mutual Aid Association during December 2008 to January 2009.

⁶ The Support Center of Transaction of the TQPPs was established by six organizations: Ministry of Health, Labour and Welfare, Pension Fund Association, The Japan Chamber of Commerce and Industry, Nippon Keidanren, The Life Insurance Association of Japan, and Trust Companies Association of Japan. The URL of ‘the Support Center of Transaction of the TQPPs’ is as follows (in Japanese); <http://www.pfa.or.jp/tekinen-iko/index.html>.