

The 2012 Issues in the Japanese Corporate Pension Plans

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Purposes of This Paper

- The year 2012 might be one of turning points in the Japanese corporate pension plan history
 - **TQPPs will be expired in March 2012**
 - Baby boomers will reach 65 and start receiving pension benefits from 2012, i.e. Japanese corporate pension plans will enter pay-out phase
 - Japanese Accounting Standard will be changed in 2012: more market-oriented and internationalized
 - Frozen treatment of tax exemption for pension investment return will be removed in 2011

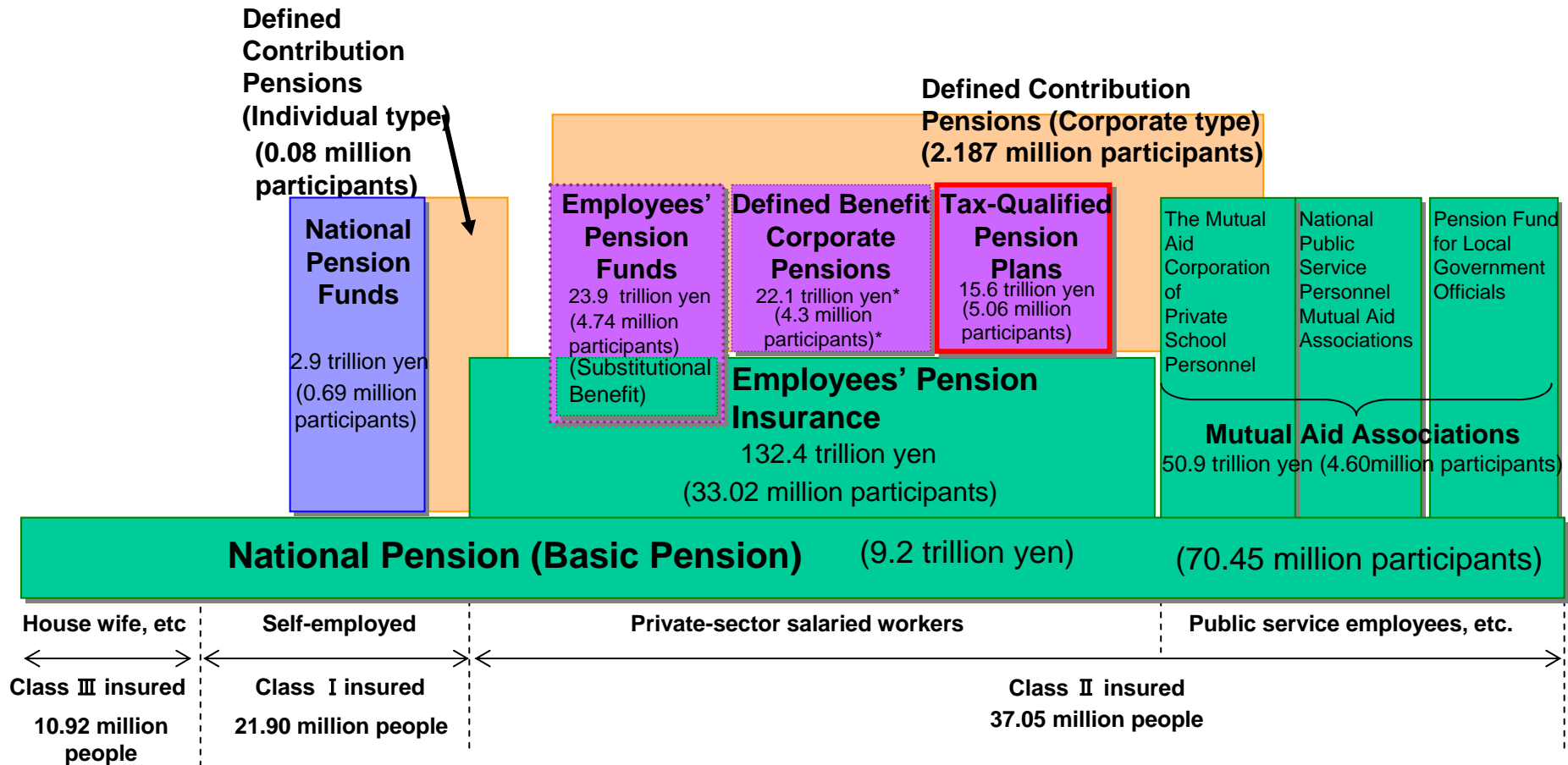
To explain the 2012 issues and discuss the future development of Japanese corporate pension plans

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2. Future Development of Japanese Corporate Pension Plans
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1. Japanese Corporate Pension Plans

Structure of the Japanese Pension Schemes



Notes:

1. The number of participants and reserves are as of the end of March, 2006.
2. Defined Contribution pensions took effect on October 1, 2001. Defined-Benefit Corporate Pensions took effect on April 1, 2002. Tax-Qualifies Pension Plans will change over to other Company Pension Plans etc till March, 2012.

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

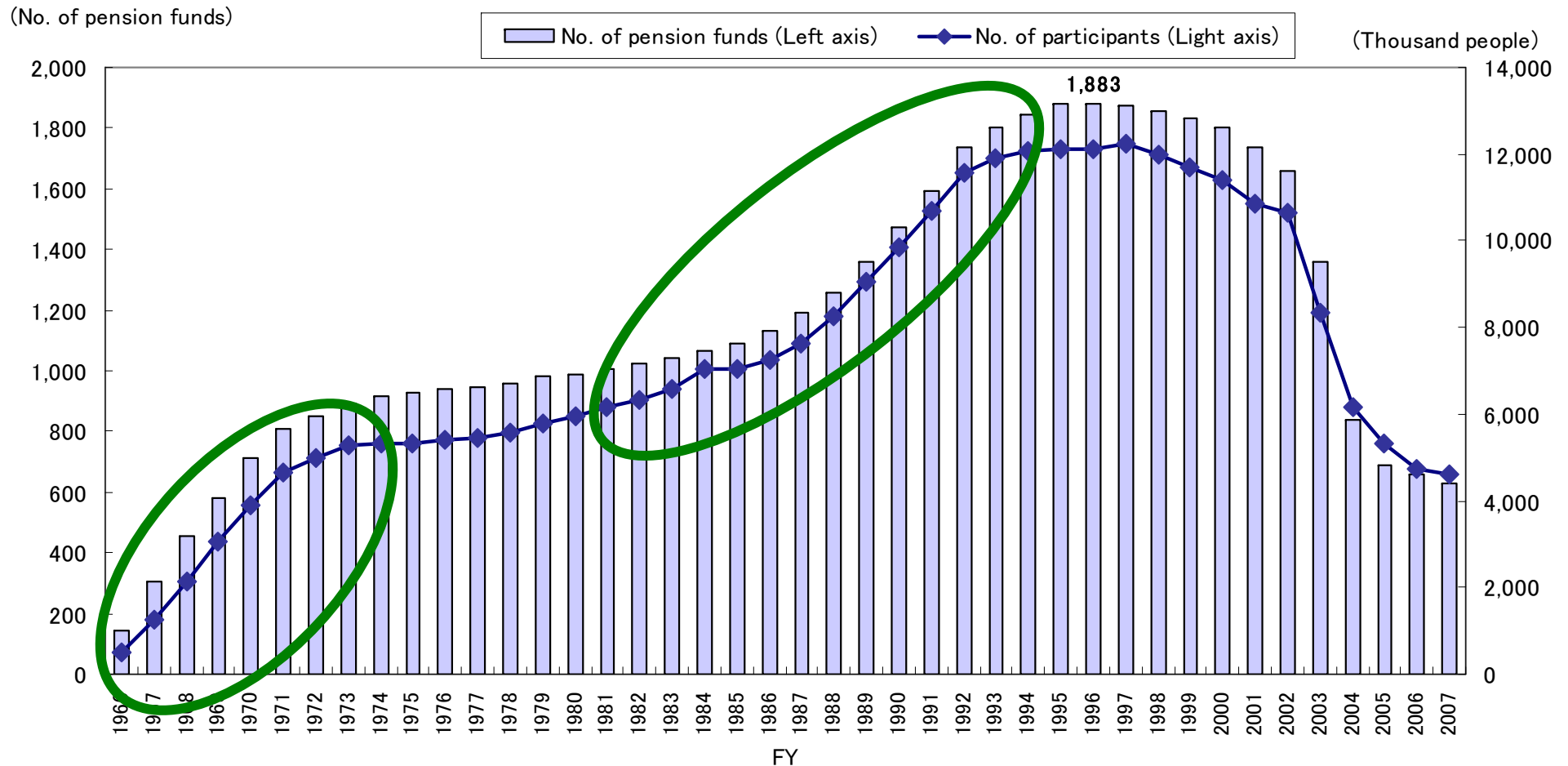
Review of Japanese Corporate Pension Plans (1)

Introduction of two DB-Type Corporate Pension Plans

	Tax Qualified Pension Plans (TQPPs)	Employees' Pension Funds (EPFs)
Law based on	Corporate Tax Law (Introduced: 1962)	Employees' Pension Insurance Law (Introduced: 1965)
Regulatory Agency	National Tax Administration	Minister of Health, Labour and Welfare
Conditions		
Benefits standard	None	50% or more of the substitutional portion of Employees' Pension is added to the benefit.
Benefit period, etc.	Over 5 years	In principle, whole life pension
Required period for pension	None	Should not exceed 20 years.
Required No. of participants	None	Independent Type and Joint Type: 1,000+ General Type: 5,000+
Reserve standard	Recalculation of budget within 5 years, but no obligation to accumulate reserve.	Obligation to accumulate reserve in accordance to benefit debt.
Obligations of the Trustee	None	Regulate obligations for faithful duty and prohibits actions which would be contrary to the aim of generating profits.

Review of Japanese Corporate Pension Plans (2)

Numbers of EPFs and their Participants



Source: Pension Fund Association

Review of Japanese Corporate Pension Plans (3)

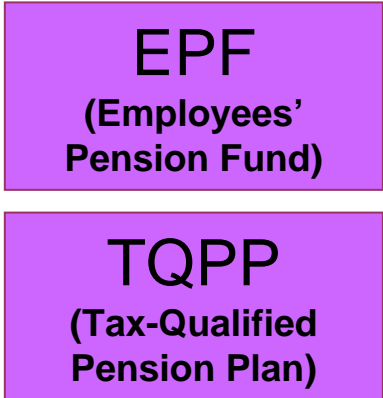
- Corporate Pension Crisis around 2000 was generated by
 - Low Investment Performance
(negative performance during 2000-02)
 - Introduction of Retirement Benefits Accounting Standards
 - Reduction/Abolition of Corporate Pension Plans
 - Change of Traditional Japanese Employment Customs

Review of Japanese Corporate Pension Plans (4)

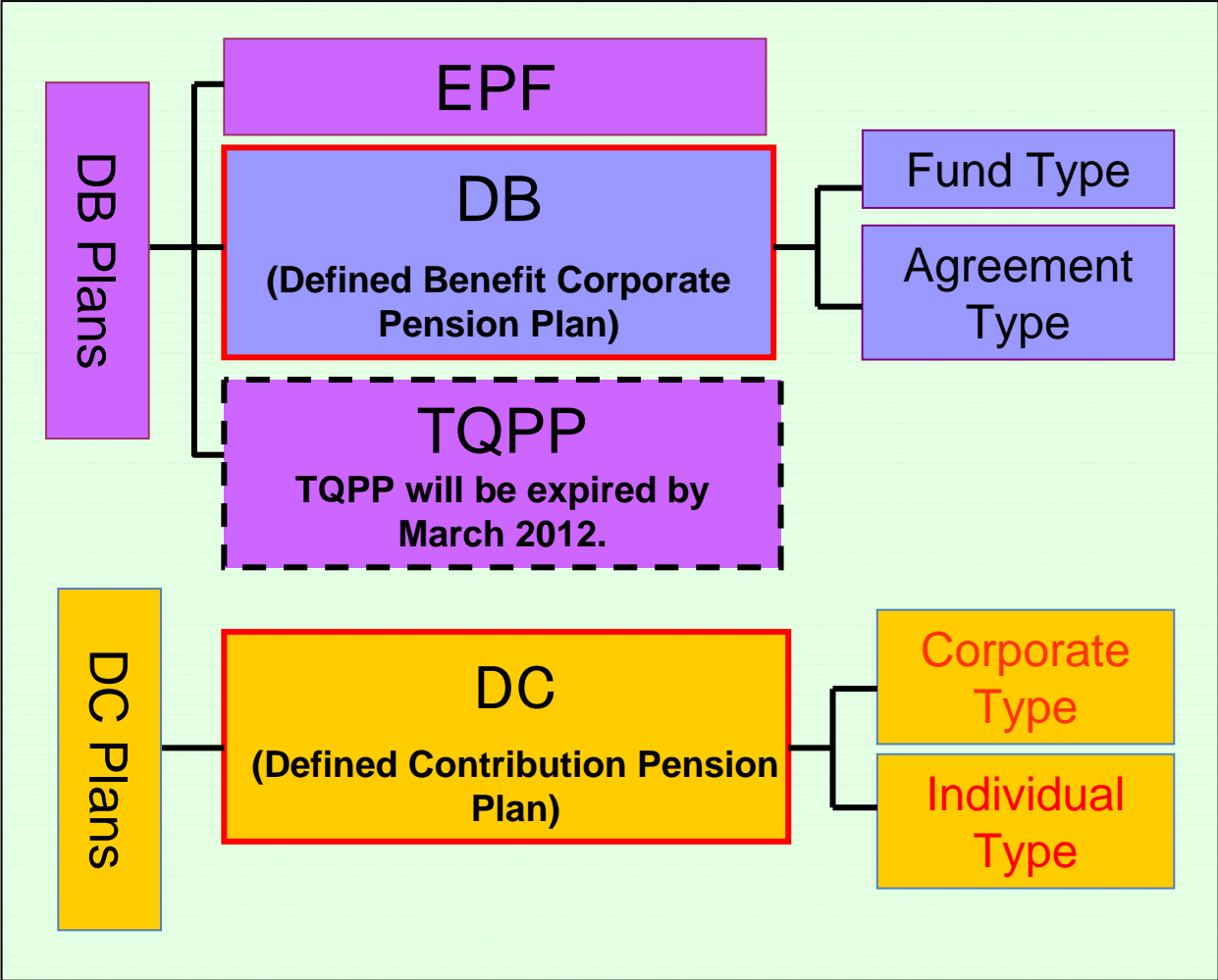
- Introduction of DB and DC Pension Laws
 - Defined Contribution Pension Act (DCPA) was enacted in October 2001
 - Defined Benefit Corporation Pension Act (DBCPA) was enacted in April 2002
 - New TQPPs' contracts will not be approved and existing TQPPs shall be transferred to other systems within 10 years (until March 2012) by DBCPA

Corporate Pension Plans Reform

Before FY2000



After FY2001



Review of Japanese Corporate Pension Plans (5)

- New Era in Corporate Pension System in Japan
 - Numbers of EPFs and their participants have decrease dramatically by '*Daiko-Henjo*'
 - New type pension plans such as DC or CB plans were introduced
 - TQPPs are required to transfer to other corporate pension plans or to terminate themselves
 - Newly introduced retirement benefit accounts also affects the shift from (a portion of) DB plans to DC/CB plans.

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

- Three countries have experienced the shift from DB to DC plans since around 2000
 - Number of the shift is limited in Japan compared to that of in the U.S. and the U.K
 - Benefit level after changing DB to DC plans is not likely to be reduced significantly in Japan
 - DC plans are likely introduced on behalf of the portion of DB plans in Japan
 - The shift in the U.K. means significant reduction of corporate pension benefits: In the U.K., DC plans are introduced only for new participants or future service and average contribution of DC plans is about a half of that of DB plans

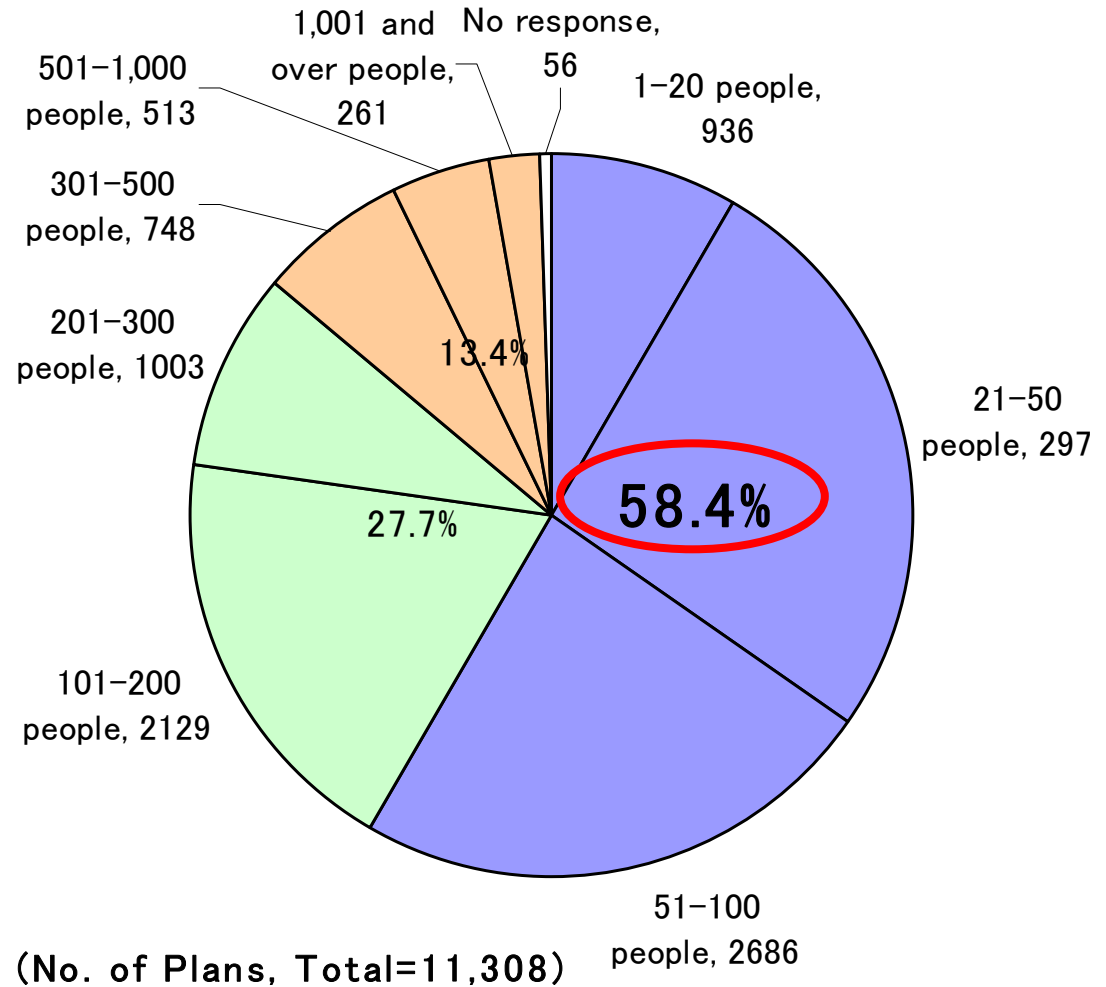
2. Future Development of Japanese Corporate Pension Plans

Future Development of Japanese Corporate Pension Plans

- To which corporate pension plans TQPPs will be transferred is one of key points
- TQPPs have five options
 - transferred to EPFs,
 - transferred to DBCPPs,
 - transferred to DCPPs,
 - transferred to SERAMAS, and
 - just be terminated.

Features of TQPPs (1)

- TQPPs are likely to be introduced in SMEs
 - 58% of companies which provide TQPPs employ under 100 people.



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

Features of TQPPs (2)

- Single use of TQPPs: 47%
- Combinations of EPFs: 21%
- Combination of SERAMAS: 17%
- Number of employers who provide newly introduced corporate pension plans in addition to TQPPs is small; DBCPPs is 445 (3.9%) and DCPPs is 255 (2.3%)

Concomitantly-used Retirement Benefits System with TQPPs

(Total=11,308)

	The TQPPs Only	The SERAMAS	The DBCPPs	The DCPPs	The EPFs	The Specific Retirement	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'

Correspondence to transaction of TQPPs

- 89% of employers have already done some sort of correspondence
 - 58% of employers have already considered transferring TQPPs to other plans
 - 26% of them just decide to transfer TQPPs
 - 6% of them decide to terminate TQPPs
- 9% of them have not done anything until now
 - Smaller companies do not seem to decide the transaction to the new system, or even decide anything until now

Reasons for Termination

- The most reasons: employers **had other retirement benefit** systems and provided sufficient retirement benefits through them (33%)
- Second largest reason :employers **could not afford to provide extra costs** such as TQPP's additional contributions (27%)

Schedule after termination of TQPPs

- 44% of employers with combined retirement systems will provide retirement benefits through combined **existing retirement systems**
- 32% of employers without any retirement systems other than TQPPs will fund money for **book reserve systems**, etc.
- 19% of employers will use **private life insurance products** to provide retirement benefits
- only 9% of employers will **abolish retirement benefits** themselves

Retirement systems of post transition of TQPPs

- 46% of employers, who decide to transfer TQPPs to other corporate pension plans, choose DBCPP
- 35% of them choose SERAMAS
- 15% of them choose DCPPs
- Employers with less 100 employees are likely to transfer to SERAMAS
- Employers with more than 100 employees plan to transfer to DBCPPs or DCPPs.

(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'

Reasons to select alternative plans

- DBCPPs
 - Both TQPPs and DBCPPs are DB plans (87%)
 - Useful to protect employees' pension benefit amount (66%)
- DCPPs
 - Possible to predict future contribution burden (72%)
- SERAMAS
 - Benefit structure is simple and easy to understand (42%)
 - SERAMAS is provided by an independent administrative institution (38%)
 - Difficult to manage a corporate pension plan independently (28%).

Number of TQPPs' contracts and their participants

- Survived TQPPs and their participants: 30 thousand plans (survival rate 40%) and 4 million people (43%)
- TQPPs mostly remain in SMEs: 90% of survived contracts are provided by corporations with less than 300 employees

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 Trust Bank	63,918	24,020	38%	2,166,562	56%
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'

Transaction situation (1)

No. of employees		Corporate pension plans				The SERAMAS	Termination	Total	%
		The DBCPPs	The DCPPs	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'

Transaction situation (2)

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'

Feature of TQPPs (1)

- What kind of corporations have introduced TQPPs?
 - About 60 % of TQPPs have been introduced in SMEs
 - About 50% of employers who introduced TQPPs provided TQPPs solely as a retirement benefit system.
- Which type of corporations have remained TQPPs?
 - Around 40% of corporations have remained TQPPs
 - About 90% of small companies with 300 or less employees have kept TQPPs
 - There is only 2.5 years until March 31 2012: The Support Center of Transaction of TQPPs was established in January 2009

Feature of TQPPs (2)

- Which corporate pension plans have been selected instead of TQPPs?
 - DBCPPs > SERAMAS > DCPPs > EPFs
 - Large corporations are likely to choose DBCPPs
 - SMEs are likely to introduce SERAMAS or terminate their plans

3. Discussion and Concluding Remarks

Discussion (1)

- DBCPPs and DCPPs become mainstream corporate pension plans instead of former ones such as EPFs and TQPPs
- Corporate pension reform has successfully enriched the protection of employees' pension benefit rights
 - In terms of protecting employees' pension benefit right, DBCPPs are more preferable to TQPPs
 - Numbers of DBCPPs which are transferred from TQPPs has been increasing rapidly

Discussion (2)

- Inadequacy of retirement benefits
 - Most SMEs' employers decided to terminate TQPPs at all, and some employers do not provide any takeover plans or pension products
 - Japanese Government should also provide more opportunities for those who have no corporate pension plans; e.g. increasing upper limit of contribution in private type of DCPPs
- How affects for the shift from DB to DC plans?
 - No affect in the short term
 - The shift may occur in the long term

Concluding Remarks

- Who relate to corporate pension field should understand and prepare for the year 2012 issues
 - Employers who have TQPPs: should decide transaction or termination of their TQPPs as soon as possible
 - Employers who provide corporate pension plans: may have to reconsider combinations of their corporate pension plans or pension benefit formula to reduce employers' pension burden
 - Japanese Government: should discuss corporate pension plans reforms in accordance with the year 2012 issues