
Mizuho Economic Outlook & Analysis

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Impacts and Issues of Japan's Pension System Reform

*Reform of the pension system to enhance the financial base of
seniors*

< Summary >

- ◆ Japan's revised pension system law was passed on May 29, 2020 and promulgated on June 5, 2020. The purpose of the revisions is to enhance the financial base of seniors in the age of longevity. Most of the revisions will take effect in April 2022.
- ◆ The main details of the revisions include: (1) Expand coverage of "kosei nenkin" (employees' pension plan) for part-time workers; (2) Expand the provision of pension benefits during active employment; (3) Expand option to defer pension benefits up to the age of 75; and (4) Review the defined contribution pension plan.
- ◆ The single greatest focus of the revision is the expanded coverage of the employees' pension plan. The situation where the coverage of employees' pension, which is part of the national social insurance system, differs depending on the size (number of employees) of a company must be rectified immediately.

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1. Japan Passes Revised Pension System Law

Japan's revised pension system law was passed on May 29, 2020 and promulgated on June 5, 2020. The main details of the revisions include: (1) Expand coverage of "kosei nenkin" (employees' pension plan) for part-time workers; (2) Expand the provision of pension benefits during active employment; (3) Expand option to defer pension benefits up to the age of 75; and (4) Review of the defined contribution pension plan (**Chart 1**).

2. Overview of Pension Revisions and Impacts

(1) Expand coverage of "kosei nenkin" (employees' pension plan) for part-time workers

The employees' pension plan covers insured persons up to the age of 70 employed regularly by an applicable business. However, coverage is applicable only to persons who work 30 hours or more per week.

Part-time workers who do not satisfy this condition can still be covered under the employees' pension plan as long as they satisfy the following five conditions: (1) work 20 hours or more per week; (2) expect to be employed for at least one year; (3) earn a monthly wage of 88,000 yen or more; (4) are not a student; and (5) must work for an applicable business that employs at least 501 persons at all times, or an applicable business directly affiliated with the national government or local government. In the case of (5), part-time workers can still voluntarily choose to be covered by the employees' pension plan even if they are employed by a business site with 500 or less employees.

With the revision, the employment period of (2) will be changed to "over 2 months" from October 2022, and the size of workforce for (5) will be expanded to 101 or higher from October 2022 and 51 or higher from October 2024. With this revision, around 650,000 part-time workers will be newly enrolled in the employees' pension plan. Furthermore, this revision stops at expanding coverage to businesses with 51 or more employees, but if the condition of workforce size is eliminated, the number of part-time workers covered by the employees' pension plan is expected to increase by 1.25 million compared to now.

(2) Expand the provision of pension benefits during active employment

Payment of Old-age Employees' Pension while they are at work may be suspended in whole or in part, depending on their income and pension (old age pension plan for active employees). This system differs for those between the ages of 60 and 64 and those aged 65 or over. The revision will increase the pension benefits for each of these groups.

Chart 1: Overview of Pension System Reform

Item	Details of revision	Date takes effect
(1) Expand coverage of employees' pension plan (same as employees' health insurance)		
Part-time workers	Expand workforce condition of eligible companies (currently: 501 or more employees) 101 or more employees in October 2020 → 51 or more employees in October 2024	Oct. 2022 Oct. 2024
Private workplaces with 5 or more employees	Attorneys and certified public accountants, etc., will be added to private workplaces with 5 or more employees applicable to employees' pension	Oct. 2022
(2) Revisions to old age pension plan for active employees		
Aged 65 or over	Pension amount under the old age pension plan for active employees will be revised annually from October payment (currently: pension amount revised at time of retirement or when pensioner reaches the age of 70)	April 2022
Between the ages of 60 to 64	Monthly sum of pension and income (calculated from salary and bonus) for suspending pension benefits while working under the "special benefit old age pension plan" paid to pensioners between the ages of 60 and 64 will be raised to 470,000 yen (currently: 280,000 yen) *Amount is for FY2020; reviewed every fiscal year	April 2022
(3) Expand option for when to start pension benefit (in principle, age 65)	Option for when to start receiving pension benefit will be expanded from age 60 to 75 (currently: from age 60 to 70) • Rate of increase for deferral: +0.7% per month (currently: same) • Rate of decrease for advance: -0.4% per month (currently: -0.5%)	April 2022
(4) Revisions to defined contribution pension plan		
Increase enrollable age	Company-type DC: For employees covered by employees' pension plan (under the age of 70) (currently: under the age of 65) Individual-type DC (iDeCo): For employees of national pension plan (under the age of 65) (currently: under the age of 60)	May 2022
Expand option for when to start pension benefit	Option for when to start receiving pension benefit will be expanded from age 60 to 75 (currently: from age 60 to 70)	April 2022

Note: Excerpts of main revisions only.

Source: Prepared by MHRI based on Ministry of Health, Labour and Welfare

The old age pension for active employees between the ages of 60 and 64 will be suspended in whole or in part when sum of pension and income (calculated from salary and bonus) exceeds 280,000 yen.

This revision will raise the income limit from April 2022. An employee can receive their full pension as long as the pension amount and income does not exceed 470,000 yen. The pension benefit will be suspended at a rate of 50% for any amount that exceeds 470,000 yen.

However, currently the age for the start of receiving pension benefits is being increased. Men will be able to start receiving pension benefits from the age of 65 in 2025 and after, while women of the same age will receive it in 2030 and after. Therefore, only a specific generation will be affected by this revision.

The old age pension for active employees aged 65 or over is suspended at a rate of 50% for any amount that exceeds a total of 470,000 yen for pension and income (calculated from salary and bonus) combined. The old age basic pension will be paid out in full (65,000 yen monthly for the full amount in FY2020). Currently, if a pensioner is employed after becoming entitled to employees' pension, the pension amount is revised upward adding in the pensioner's employees' pension period after becoming entitled to pension benefits when losing qualification (at time of retirement or when reaching the age of 70). With this revision, the pension amount will be revised upward once annually from the October payment. This revision will take effect in April 2022.

For example, if a person is employed for a one-year period earning a monthly wage of 200,000 yen after the age of 65, their pension amount will be increased around 13,000 yen per year.

(3) Expand option to defer pension benefits up to the age of 75

As explained above, currently pension benefits are paid out to some pensioners between the ages of 60 and 64, but the age for the start of pension is in principle 65. However, pensioners can elect to receive pension benefits early from age 60 or defer pension benefits from age 66 or older. As a result, an individual can select to start receiving their pension benefit between the ages of 60 and 70. The revision will take effect in April 2022 and increase the limit on pension benefit deferral to age 75, making it possible to select the start of pension benefits between the ages of 60 and 75.

When electing to receive pension benefits early, currently the pension amount is reduced by 0.5% for every month in advance, but after the revision this rate of reduction will be 0.4% per month. If a pensioner elects to receive their pension from age 60 the amount will be reduced by 24% (currently 30% reduction). When electing to defer pension benefits, currently the pension amount is increased by 0.7% per month of deferral. After the revision, the same percentage will apply in case of electing to defer pension benefit to age 75. If electing to receive pension benefits from 75, the pension amount will be increased 84%.

However, if the pension benefit increases, the deductions of tax and social insurance premiums will also increase, which means the net amount may not increase by the same percentage.

(4) Review the defined contribution pension plan

The defined contribution pension plan is a pension plan where the future payout amount is determined based on the total amount of premiums contributed and investment returns of this amount. There are two types: company-type pension where the business owner contributes the premiums (hereinafter, company-type DC) and the individual type pension (hereinafter, iDeCo) where the individual themselves contributes¹.

Revisions to the defined contribution pension plan involve the review of enrollable requirements.

In May 2022, the enrollable age will be increased. The company-type DC currently covers workers under the age of 65 who are covered by the employees' pension plan, but the revision will expand this to those under the age of 70. iDeCo covers workers under the age of 60 covered in the National Pension Plan, but this will be expanded to those under the age of 65 after the revision.

The start of benefits for the defined contribution pension plan can be selected between the ages of 60 and 70, but with this revision, from April 2022 those between the ages of 60 and 75 can choose.

3. Evaluation and issues of the current pension system revisions

The single greatest focus of the revision is the expanded coverage of the employees' pension plan.

The coverage of the employees' pension plan for part-time workers will be expanded to companies with a workforce of 51 or more people from October 2024. However, the situation where the coverage of the employees' pension plan, which is part of Japan's social insurance system, differs depending on the size (number of employees) of the company must be rectified immediately. There is a need to present a schedule promptly for eliminating the requirement of workforce size in stages. Expanding the coverage of the employees' pension plan raises the concern of increased premium burden especially for businesses. This can be addressed by adjusting government subsidies and other means. Given that this will result in an increase in future pension amount, there is a need to expand coverage even broader.

Some inequality remains in that revisions to the old age pension plan for active employees between the ages of 60 and 64 will only affect a specific generation, but considering it has been confirmed to some degree that currently system of pension curtail the desire to work among those between the ages of 60 and 64, and the impact to pension finances is minimal, this revision was unavoidable. As for old age pension for active employees of aged 65 or over, the revision will increase the pension amount once annually,

but it carries significance in that pensioners will feel that continued employment is reflected in the pension amount every year.

Expanding the deferral of pension benefits until the age of 75 will provide greater security in old age as Japan's longevity increases, as long as pensioners can receive a pension amount that is 84% higher from age 75. However, since the rate of increase for deferral is determined on the basis of neutrality for pension finances, this does not necessarily result in a net increase in the total pension amount over a lifetime. The total pension amount when a pensioner begins receiving pension benefits from age 75 will only exceed the total amount of benefits if the person started receiving them from age 70 if they live to at least 92 years of age. This is actually even longer when considering the net proceeds after tax and social insurance premium deductions. In addition, since the number of households that can live without pension until the age of 75 is believed to be limited, the actual number of entitled pensioners who defer benefits to age 75 is seen as low.

With the importance of private pension to complement public pension receiving renewed interest, it is important to carry out initiatives for popularizing and expanding the defined contribution pension plan. Next, further promotion of enrollment will be needed by significantly increasing the contribution limit for securing future benefits of enrollees and by simplifying procedures for enrollment.

¹ The company-type DC makes it possible for the enrollee to make matching contributions of premiums; while for iDeCo, additional contributions of premiums can be made by businesses if they use the iDeCO plus system.