

VI. Improving the Environment for Retirement

1. Situation regarding Employment in Profit-Making Enterprises after Retirement from the Public Service

The situation of reemployment in profit-making enterprises changes from year to year due to factors such as the number of employees retiring from each Office and Ministry and recruitment trends in the private sector. The NPA approved 70

employments in profit-making enterprises in 2006.

The Cabinet Office and each Ministry, Specified Independent Administrative Institutions, and the Japan Post approved 611 employments in profit-making enterprises through the delegation of approval authority by the NPA, etc.

These employments approved by the NPA included 15 cases in which persons were employed through the “Fair and Best Use of Human Resources System.” This is a fair, highly transparent employment mechanism established in 1998 in order to utilize the expertise and abilities of public employees fully in the society. Under this system, private enterprises wishing to make use of the specialized knowledge and abilities of public employees file a request with the NPA through the Nippon Keidanren (Japan Business Federation). Upon receiving these requests, the NPA refers to the Cabinet Office, relevant Ministry, or other relevant organizations, and then each Ministry, etc. makes contact with the profit-making enterprises after gaining informal consent from relevant employees. (Table 3)

[Table 3] Number of NPA Approvals (2002-2006)

(Unit: cases)

2002	2003	2004	2005	2006
59(4)	78(9)	89(10)	66(14)	70(15)

(Note) The figures in the parentheses represent the number of employments through the “Fair and Best Use of Human Resources System.”

2. Correcting the Practice of Early Retirement and Utilizing the Re-employment System Actively

Correcting the practice of early retirement and lengthening the period of service is necessary to respond to severe public criticism of the so-called “Golden Parachute” practice (the awarding of private sector jobs to retiring public employees) in recent years and to retain the trust of the people in the public service. In addition, it is important for the Cabinet Office and each Ministry to strengthen the ability- and performance-based promotion management, such as introduction of the multiple-track personnel management system. The NPA plans to facilitate necessary cooperation to improve the conditions for the prolonged service period, including establishment of the Specialized Staff Salary Schedule to introduce the multiple-track personnel management system.

Japan is approaching a full-fledged aging society and the entitlement age for public pensions has been raised. Amidst this state of affairs, a re-employment system has been

introduced to enable employees to apply themselves to their duties without feeling anxiety about life after reaching the retirement age and effectively exercise their abilities and experience cultivated over many years. There is a need to re-employ public employees endowed with the will and ability to continue working in the public service after they reach the retirement age to the extent possible.

The NPA is advancing efforts for smooth operation of the re-employment system, such as providing guidance and advice to the Cabinet Office and each Ministry.

3. Retirement Benefits of the Public and Private Sectors

In the current public pension system, the basic pension (so-called 1st floor portion) has been applied to the whole nation since FY 1986. Remuneration-related pension (so-called 2nd floor portion) is added to the basic pension for workers, namely, the Employees' Pension for employees of private enterprises and the mutual aid pension for national public employees, etc. Furthermore, in the mutual aid pension system, the duty-related portion (so-called the 3rd floor portion) equivalent to 20% of the 2nd floor portion is added in consideration of particularity of duties.

In addition to the public pension benefits, most employees of private enterprises receive corporate pension benefits or the retirement allowance after retirement. National public employees also receive the retirement allowance as corresponding to these benefits or allowance.

Unification of the mutual aid pension system and the Employees' Pension Insurance system has been considered. The basic policy on the unification of employees' pension plans was decided at a Cabinet meeting held on April 28, 2006. The decision included elimination of the duty-related portion in the mutual aid pension system from the public pension system in 2010. However, the decision also defined, "A new pension mechanism for public employees shall be established. The NPA shall conduct a fact-finding survey of public employee pensions systems in foreign countries, corporate pension schemes, and retirement allowances in the private sector. The new mechanism shall be designed based on survey results." On the same day, the Chief Cabinet Secretary sent a letter to the NPA President requesting the NPA to conduct the survey and express its views.

In response to the request, the NPA conducted a survey of public employee pensions systems in major countries. The NPA also studied the system and payments in the corporate pension system and the retirement allowance schemes in the private sector over approximately two months from July to September 2006. The NPA compared the

total of the duty-related portion and the retirement allowance for national public employees and payments in the private sector, using the Laspeyres method.

As a result, the NPA found that the average of the total amount of retirement benefits paid by employers throughout post-retirement life was 29,601 thousand yen in the public sector while the average amount was 29,802 thousand yen in the private sector, demonstrating that the amounts are basically at the same level in both sectors at present. The NPA also found that the amounts in the private sector will be larger by 2,416 thousand yen after 2010 when the duty-related portion is abolished.

From a perspective of promoting the balance between the public and private sectors, the NPA recognized the necessity to take measures to eliminate the differential upon the abolishment of the duty-related portion. The NPA sent a letter to the Chief Cabinet Secretary on November 16, 2006, reporting survey results and expressing views on the new pension system for public employees.

After the letter was sent to the Chief Cabinet Secretary, the Ministry of Finance, which is in charge of the mutual aid pension system, requested the NPA to calculate retirement benefits, including the portion paid by employees, as reference for the design of the new scheme. The NPA additionally calculated the portion paid by employees in the corporate pension scheme, based on the data obtained in the recent survey of the private sector, and also the portion paid by employees in the public sector.

As a result, regarding the total benefits (the accumulated total of benefits paid throughout the benefit period converted to a lump-sum payment) paid for the portion paid by employees, the average in the private sector was 588 thousand yen because, in the corporate pension scheme, enterprises pay all costs in many cases and employees pay only in a limited cases, while the average in the public sector was 2,214 thousand yen, which was the same amount as the benefits for the portion paid by the employer because the duty-related portion in the public pension system was paid in equal shares by the employer and employee.

Based on the views expressed by the NPA, the government and ruling party, which were considering the unification of the employees' pension systems, made a decision at the Cabinet meeting on April 13, 2007, and submitted the "Bill for Partial Amendment of the Employees' Pension Insurance Law, etc. for Unification of the Employees' Pension Systems" to the Diet.

This bill proposed abolishment of the duty-related portion in 2010 and did not incorporate establishment of a new substitute pension system for public employees. However, the bill specified in its supplementary provision, "A new pension system for

public employees shall be established upon the abolishment of the duty-related portion in the mutual aid pension system for public employees. Matters related to the new system shall be considered in 2007 and necessary measures shall be taken based on consideration results as stipulated in laws and regulations separately.”

Outline of Results of the Survey of the Private Sector, etc. and Views on the New Pension System for Public Employees (November 16, 2006)

1. Background

Regarding the Basic Policy on Unification of the Employees' Pension Systems (Excerpt) (Cabinet decision made on April 28, 2006)

4. Duty-related portion

- (1) The current duty-related portion (3rd floor portion) in the public pension system shall be abolished in 2010.
- (3) A new pension mechanism for public employees shall be established. The NPA shall conduct a fact-finding survey of public employee pensions systems in foreign countries, corporate pension schemes, and retirement allowances in the private sector. The new mechanism shall be designed based on survey results.

* In response to this Cabinet decision, the Chief Cabinet Secretary sent a letter to the NPA President the same day, requesting the NPA to conduct the survey and express its views.

2. Outline of the Survey of the Private Sector

(1) Private enterprises surveyed and details of the survey

The NPA conducted a survey of 6,232 private enterprises selected by the stratified random sampling method from approximately 37,000 enterprises with not less than 50 employees. The NPA received responses from 3,850 enterprises. (Survey completion rate: 61.8%)

* Whether or not the enterprises have a retirement benefit plan (corporate pension scheme and retirement lump-sum allowance) and details of the plan

* Amounts of retirement benefits for full-time employees who retired in FY 2005 with a length of service not shorter than 20 years (actual number of surveyed employees: 23,680 employees)

(Reference) 2001 survey: Survey completion rate: 53.3%,

Actual number of surveyed employees: 23,378 employees

(2) Facts about the retirement benefit plan in the private sector

* Enterprises with a retirement benefit plan: 92.0%

Of these, enterprises having both a corporate pension scheme and retirement lump-sum allowance: 44.0%

Only corporate pension scheme: 14.5%

Only lump-sum retirement allowance: 41.5%

(3) Outline of the corporate pension schemes

* The most common qualification criteria were “the length of service and age” (39.2%)

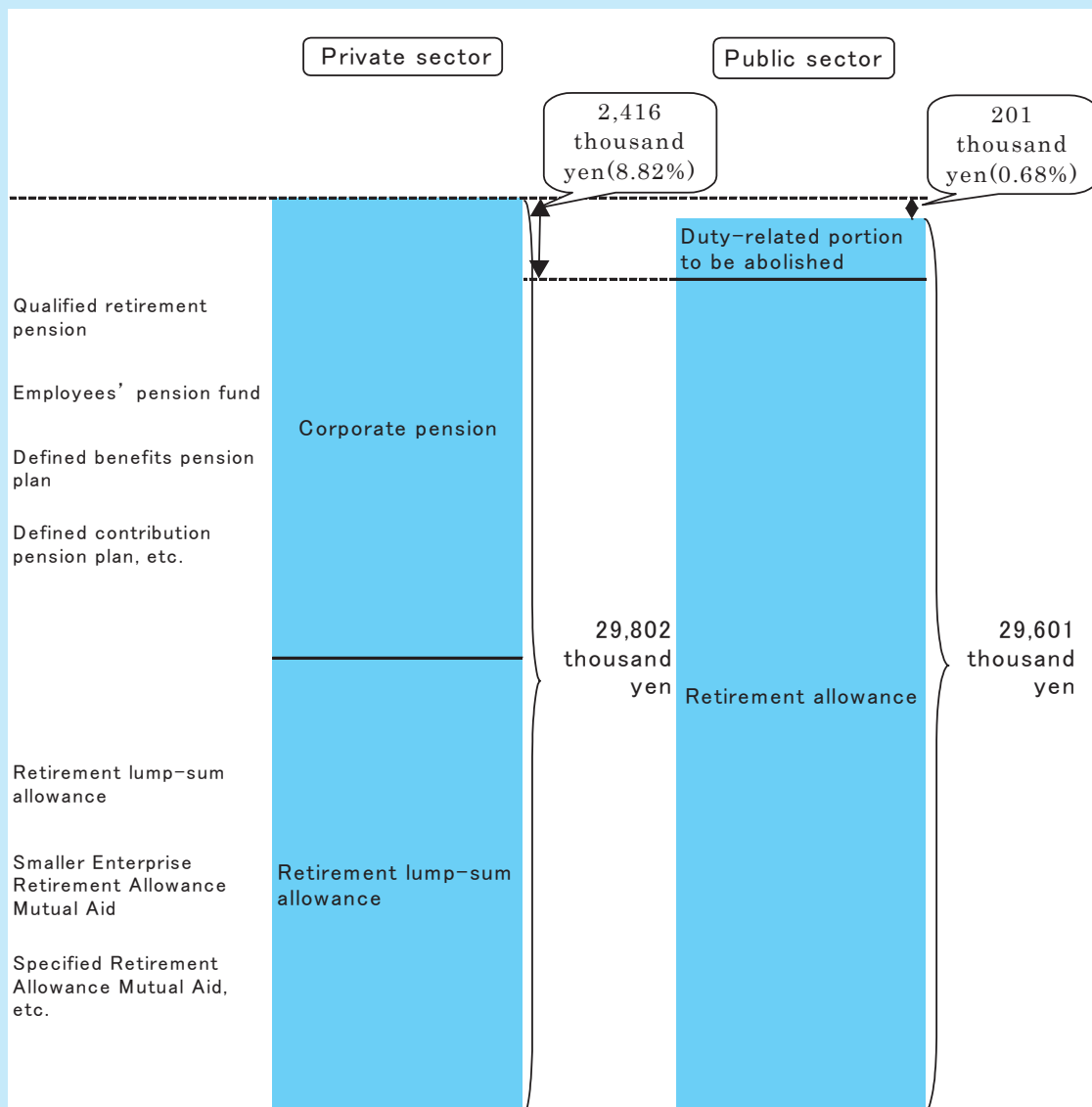
The most frequently responded qualification criteria were “Not shorter than 20 years’ service and the age of 60.”

* Regarding the benefit payment period, 51.4% enterprises responded with “definite term” (“10 years” was the most frequently responded.) while 34.1% responded with “whole life.”

* The majority of the enterprises pay all costs (86.1%).

* 78.1% enterprises have an lump-sum payment in lieu of normal annuity benefits.

3. Difference in Retirement Benefits (Total of Pension Benefits [for the Portion Paid by Employers] and Retirement Lump-sum Allowance) between the Public and Private Sectors



* The survey was conducted for all white-collar employees with a length of service not shorter than 20 years (the Salary Schedule for Administrative Service (I) for public employees) who retired at the retirement age or left the job involuntarily due to a reason attributed to enterprises (encouraged retirement for public employees).

* Comparison was conducted using the Laspeyres method by reason for retirement (retirement age, encouraged retirement) and by the length of service. (Personnel composition by reason for retirement and by the length of service in the public sector was used to calculate the retirement benefits per employee in the private sector.)

* For both the public and private sectors, the accumulated pension benefits to be paid in the future (the accumulated total to be paid throughout the period of average life expectancy in the case of permanent pension scheme) was converted to the present value of the lump-sum payment at the time of retirement. The assumed return rate of 2.20% (FY 2005), specified in an announcement of the Minister of Health, Labour and Welfare for calculating the minimum funding standard for pension, was used as the conversion rate.

* The retirement benefits in the private sector include all benefits; namely, benefits paid by enterprises having only a corporate pension scheme and benefits paid by enterprises having only a retirement lump-sum allowance scheme are also included.

4. Outline of the Pension System for Public Employees in Major Countries (U.S., U.K., Germany, and France)

(1) Outline of the retirement benefit system for public employees

* All the four countries basically adopt a pension system for retirement benefits.

No public pension system as part of the social security system, a pension system separately established ... Germany and France

occupational pension added to the social security pension for public employees ...

U.S. and U.K.

(2) Pension level

* Pension level for public employees is higher than the pension level in average private enterprises in all the four countries.

Example: Germany Average government pension: 3,983 thousand yen

Average pension in the private sector: 2,219 thousand yen

(Converted using purchasing power parity)

* Percentage of pension benefits for Director-General of a Central Office or Ministry when his/her last remuneration is set as 100 (including the basic pension portion, if any)

U.S. 72% U.K. 57% Germany 70% France 73%

Japan: 34% (when all benefits including the retirement allowance are converted to pension payments)

(3) Percentage of payments made by employees (percentage to remuneration, including payments for the basic pension portion, if any)

U.S. 7% U.K. approximately 11–13% Germany None France 7.85%

Japan: 7.3835%

5. Views on the Structure of a New System for Public Employees

* It is necessary to take measures to bridge the gap with the private sector after the abolishment of the occupational pension in the mutual aid pension system in order to balance the public and private sectors.

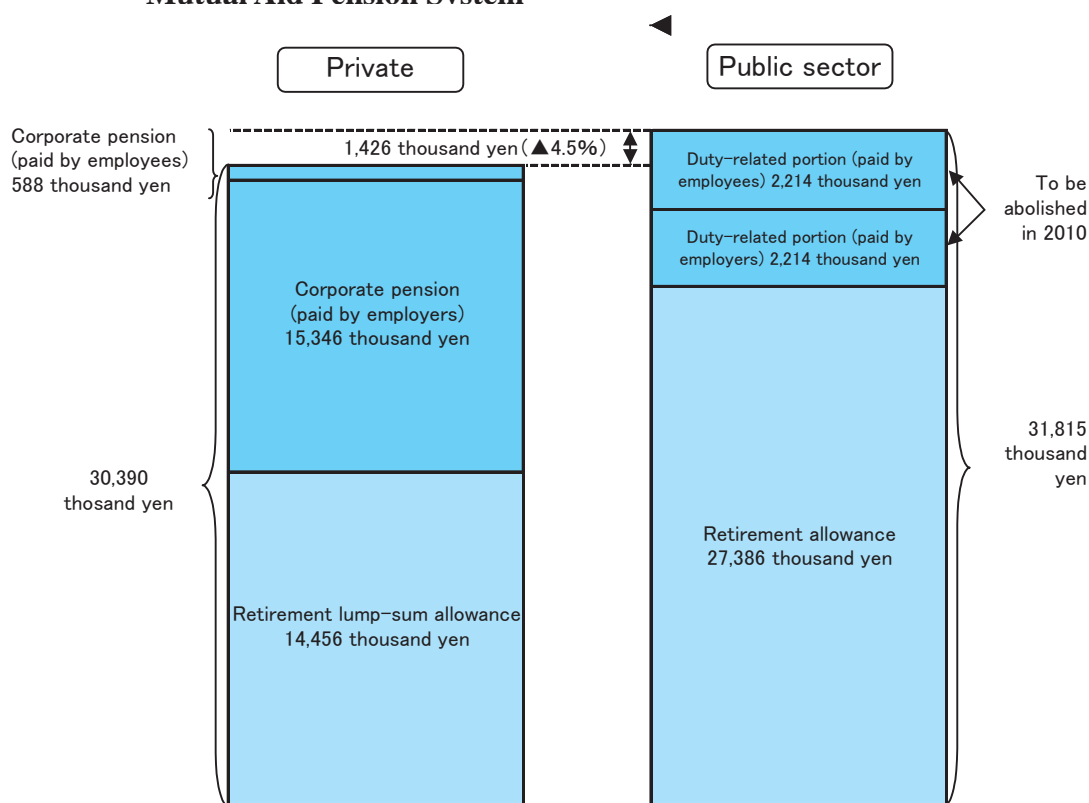
* It is appropriate to establish a new pension mechanism separate from the public pension system, considering public personnel management needs.

* In addition to the comparison with the average pension level in the private sector, further reviews are necessary from in view of the necessity to improve the retirement benefit system, bearing in mind the actual retirement benefit systems adopted by enterprises, which are competing with and are similar in their nature to the public

sector, and personnel management needs in the public sector ((1) strict service disciplines, (2) necessity to secure continued service over an extended period of time, and (3) pension levels for public employees in major countries).

* In the design of the system, it is necessary to consider (1) the ideal proportion of the pension benefits and the lump-sum retirement allowance (the retirement lump-sum allowance is prevalent at present), (2) raising the percentage of pension benefits to the last remuneration in consideration of the percentages in major countries, and (3) the relationship between the pension benefits and the restrictions on the employment/the re-employment system.

[Reference] Retirement Benefits Including the Portion Paid by Employees in Corporate Pension Schemes and the Duty-Related Portion in the Mutual Aid Pension System



(Note)

1. The surveyed employees were full-time employees with a length of service not shorter than 20 years in enterprises with not less than 50 employees. Comparison was conducted using the Laspeyres method by reason for retirement and by the length of service.

2. For the corporate pension and the duty-related portion in the mutual aid pension system, the accumulated total of pension benefits to be paid in the future (the accumulated total to be paid throughout the period of average life expectancy in the case of the permanent pension scheme) was converted to a lump-sum payment.