

Outline of the Results of the Survey on Corporate Pension Plans and Retirement Allowances in the Private Sector and the NPA View on a New Pension Plan for National Public Employees

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National Personnel Authority

1. Background

- The Cabinet meeting held on April 28 made decisions on the National Public Service Mutual Aid Pension, namely, (1) abolishment of the existing occupational portion (the so-called 3rd floor portion) as a public pension in 2010 and (2) establishment of a new pension system for national public employees and design of the new pension system based on the results of fact-finding surveys on pension plans in foreign countries and the private sector conducted by the NPA
- On the same day, the Chief Cabinet Secretary sent a letter to the NPA President and requested to conduct surveys and express opinions.

2. Difference of Retirement Benefit Levels between the Public and Private Sectors

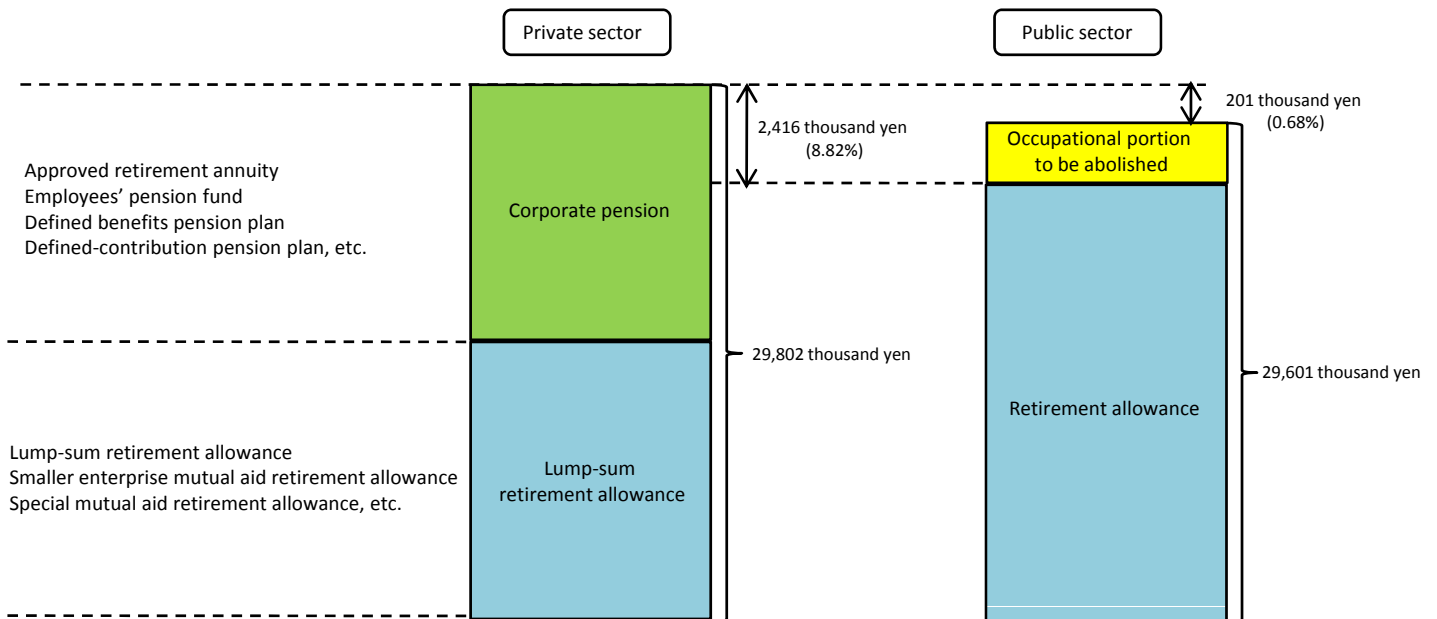
Comparison of the total amount of retirement benefits including pension benefits (for contributions paid by employers) and lump-sum retirement allowance between the public and private sectors

Private sector 29,802 thousand yen

Public sector 29,601 thousand yen

(The total amount in the private sector is higher than the public sector by 201 thousand yen (0.68%))

[The private sector will exceed by 2,416 thousand yen (8.82%) after the abolishment of the occupational portion]



- The NPA conducted a survey on retirement benefits of private enterprise employees, whose service period is not shorter than 20 years, of 6,232 enterprises with not less than 50 employees. (The NPA received responses from 3,850 enterprises (61.8%))
- The NPA conducted a Laspeyres comparison by reason for separation (mandatory and encouraged retirement) and by service period.
- For both the public and private sectors, the accumulated pension benefits to be paid in the future were converted to the present value 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.

3. NPA View on Retirement Benefits for National Public Employees

- It is necessary to take measures to fill up the gap between the public and private sectors to balance the benefits in both sectors.
- It is appropriate to establish a new pension system separately from the public pension plan, considering the public employee management needs.

• In addition to the comparison with the average benefit level in the private sector, it is necessary to further examine the necessity of improving the retirement benefit plan for national public employees in view of the actual retirement benefit plans of enterprises which compete with the public sector or engage in similar operations to public services, as well as in view of public employee management needs ((1) strict disciplines, (2) the necessity of ensuring a long service period, and (3) pension levels of public employees in major countries).

• In designing the pension plan, it is necessary to consider (1) the ideal ratio of pension benefits and lump-sum retirement allowance (Currently, the lump-sum retirement allowance occupies the major part.), (2) raising the pension payment rates in reference to examples in major countries, and (3) relationship between pension benefits and the restriction on employment at profit-making enterprises after leaving the public service or the re-employment system of national public employees.

<<Reference 1 Outline of the Survey on Private Enterprises>>

A) Survey scope and survey item

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 plan and lump-sum retirement allowance) and details of the plan
- Amounts of retirement benefits paid to full-time employees who served for not shorter than 20 years and retired in FY 2005

B) Actual state of the system

- Enterprises with a retirement benefit plan: 92.0%
(Of these, enterprises having both a corporate pension plan and lump-sum retirement allowance: 44.0%, enterprises with only a corporate pension plan: 14.5%, and enterprises with only lump-sum retirement allowance: 41.5%)

C) Outline of corporate pension plan

- 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 of service and the age of 60”.
- Regarding the benefit payment period, 51.4% enterprises responded “definite term” (“10 years” was the most frequently responded.) while 34.1% responded “whole life”.
- The majority of the enterprises pay all costs (86.1%).
- 78.1% enterprises have an alternative lump-sum payment scheme.

<<Reference 2 Outline of the Pension Plan for Public Employees in Major Countries (U.S., U.K., Germany and France)>>

A) Outline of the retirement benefit plan for public employees

- All the four countries basically adopt a retirement pension plan.
[No public pension plan as part of the social security system, a pension plan separately established ... Germany and France
Occupational pension added to the social security pension for public employees ... U.S. and U.K.

B) Pension level

- The pension level for public employees is higher than that of 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 a 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)

C) 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%