

# Cost Sharing Schemes in Japanese Social Security Pensions: A Short Note

Takayama, N. Prof. Dr.

Professor Emeritus at Hitotsubashi University, Tokyo

President of RIPPA, Japan

## 1 Introduction<sup>1</sup>

Cost sharing among different regions and among different occupations in social security pensions of China is still halfway on its journey. It is necessary for people concerned to correctly understand why cost sharing is required, and to finally make a compromise with concessions, especially from those groups of vested interest.

Japan has ample experiences in executing cost sharing in her pensions. This short note explains the essential contents of Japanese experiences. The present author hopes that their lessons can be helpful to policy makers and researchers of social security in China.

## 2 Cost Sharing among Segmented Social Security Pension Systems

Social security pensions in Japan have two-tier benefits: the flat-rate and the earnings-related portions. Both benefits are basically financed on a pay-as-you-go basis. Their systems used to be segmented by different sectors of the population. Under segmented systems of social security pensions, those with a small or declining number of their participants were most likely to be quite fragile in their healthy financing. Generally speaking, the more the number of participants is, the more sustainable the pension system is in the long run.

### 2.1 The First-tier Basic Pensions

In order to have a healthy financing of the first-tier flat-rate benefit, cost sharing among all the segmented pension systems has launched since 1986 (see Takayama 2018 for more details).

The guiding principle for this cost sharing is that those who have paid the same amount of contributions in the past should receive the same monthly amount of pension benefits, as far as the same cohort is concerned.

The benefits to be shared have been restricted to those of the lowest common multiple (最小公倍数) among all the segmented systems. They were (and are) the flat-rate benefits of the Kokumin-Nenkin (KN: 国民年金) for non-employed persons and farmers, which was established last in 1961 as the social security pension system in Japan. The benefits have been renamed as “basic benefits” since its cost-sharing scheme has been introduced.

The benefits from when to be shared? Each amount of contributions made so far from 1961 by all the other insured persons in the KNH (厚生年金保険) and the MAAs (共済組

---

<sup>1</sup> This short note is a revised and extended version of the first half report presented at the China-Japan joint workshop on pensions, CASS, Beijing, 27 July 2018.

合年金) was more than the amount of contributions made by those of the KN. This enabled people to regard the KN as if it would have been also applied to the participants of the KNH and the MAAs since 1961.

In order to carry out this cost-sharing, the central government set up the special account of basic pensions, and decided to do its fiscal management on a *fully* pay-as-you-go basis. Namely, the aggregate *annual* amount of basic benefits was (and is) to be first estimated which have been entitled from contributions made since April 1961.<sup>2</sup> Then the corresponding aggregate amount of financial resources was (and is) given. Its financial resources comprise the supportive grants from each segmented system and the transfer from general revenue. The transfer from general revenue was initially set to equal one-third of the aggregate annual amount of basic benefits, and has been lifted to one-half of it since 2009. The remaining cost has been shared among all the segmented systems through their supportive grants whose main income source is contributions. The annual amount of their supportive grants has been in proportion to the head-count ratio of current insured persons of age 20 to 59 in respective systems (加入者頭割).<sup>3,4,5</sup>

Through this nation-wide scheme, cost sharing has been fully accomplished among different occupations (civil servants, private-sector employees, self-employed, and farmers), among different regions, between men and women, and between growing and declining companies. It worked out to transfer income (contributions in a practical sense) from salaried workers to the self-employed persons, from present growing companies to major companies in the past, and from males to females.

## 2.2 The Second-tier Earnings-related Pensions

Regarding the second-tier earnings-related benefit, all the employment-based pension schemes have been unified since 2015. The ultimate goal to have nation-wide equal treatments of pensions between civil servants and private-sector employees was achieved, then.

Moreover, Japan has a unique scheme of cost sharing of pensions among different regions. The next section describes this scheme.

## 3 Cost Sharing in Social Security Pensions among Local Government Officials

### 3.1 Background and Overview

---

<sup>2</sup> April 1961 was the starting month of Kokumin-Nenkin.

<sup>3</sup> The insured persons include the dependent spouses of both private-sector employees and civil servants.

<sup>4</sup> Note that this cost-sharing is not based on the ability-to-pay (応能負担) principle. Honest income-reporting from the self-employed persons is not probable yet, which makes the ability-to-pay principle very hard to be introduced among the self-employed ones. Consequently, lower income groups are forced to bear heavier burdens in this cost-sharing.

<sup>5</sup> Ex post amounts of the cost-sharing more or less differ from ex ante amounts. The difference is fully adjusted annually after it has concluded.

Local governments in Japan currently have a two-tier structure: 1724 cities (市区町村) and 47 provinces (都道府県). Each city belongs to a respective province.

The comprehensive social security pension systems including all local government officials date back to 1962. They cover old-age, disability and survivors' benefits. The benefit formula for local government officials has been completely the same, regardless of their status or their cities/provinces.

In contrast, their rates of contribution varied among different financial units at the outset.

The social security pension systems for them had 16 separate financing units: 1) provincial officials, 2) teachers and employees in local public schools, 3) all police men including those in the central government, 4) officials in Tokyo metropolitan government, 5) ~ 14) officials in 10 big cities (Yokohama, Osaka, Kyoto, Nagoya, and others; each city has its own financial unit), 15) officials in special cities (Sendai and several cities in Hokkaido/Aichi provinces), and 16) officials in other cities. These fragmentations were mainly due to historic backgrounds.

The financial performance of each unit was different, depending on its head-count ratio of contributors over beneficiaries, age distribution of contributors, and the average level of monthly salaries.

Around the end of 1970s, the gap of contribution rates among different financial units was not regarded as equitable, since quite the same rule applied to any officials of local governments when they received pension benefits. Some cost sharing scheme was required to amend this situation.

Two schemes were mainly considered. One was complete unification of the separate financial units. This was quite similar to the social security pension system for central government officials in Japan. The other was a partial cost sharing scheme which allowed a discretionary decision within each financial unit on how to deal with varying levels of respective funded reserve.

The final conclusion came in May 1983, when a bill on establishing a partial cost sharing scheme was passed in the Parliament. Two financial units (teachers/employees in local public schools, and police men) were exempted from this cost sharing.

In April 1984, the pension fund association for local government officials (PAL: 地方公務員共済組合連合会) was set up to execute this cost sharing.

Since then, the PAL also has been doing investment management of its fund, together with integrative actuarial revaluation of the pension financing for the covered 14 units (mentioned above) every five years.

### 3.2 Cost Sharing among Different Regions

On 1st April 1984, each financial unit was mandated to transfer not only 30% of its existing funded reserve but also 30% of new increases in their reserve every year, thereafter, to the PAL.<sup>6</sup> In return, any unit has been assured to receive the full amount

---

<sup>6</sup> In China, since 2018 a new nation-wide cost-sharing scheme (中央調整基金) has been established to

of compensating money from the PAL pooling when its own funded reserve becomes exhausted.

At the same time, since 1984 the contribution rate of pensions for program participants in the 14 financial units (mentioned above) has been unified.

#### 【Acknowledgements】

The present author is deeply indebted to valuable information on the PAL given from Mr. Hiromitsu Arai (荒井寛光). The author is very grateful for research grants from the JSPS (19H01496, 17H00991 and 16H03629).

#### References

Takayama, N. (2018) “Major Changes in Japanese Public Pension System: Their Backgrounds and Underlying Philosophies” 「比較」 96, pp.175-203, *in Chinese*

---

finance part of social security basic benefits through contributions among all the segmented systems for urban employees. The scheme is more or less similar to the Japanese PAL, although its details are different from the Japanese scheme.