
The Price of Social Security at all Costs? -Current Trends in Pension Provision Japan' s case

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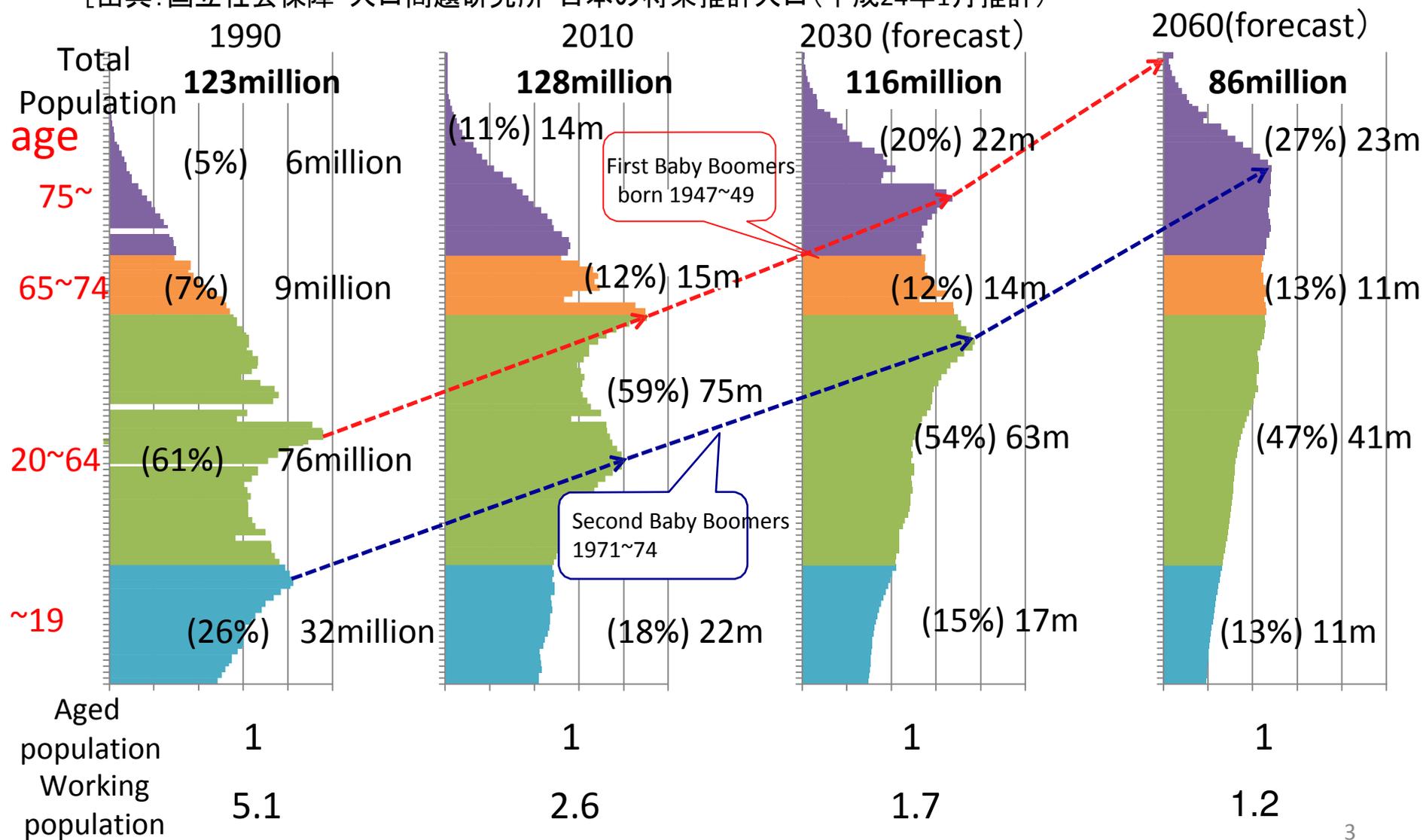
March 24th, 2014

Backdrops of Japan's Social Security -points to be discussed

- Demographic Change
- Financial Accounts
- Fiscal Position
- Economic Growth Prospective

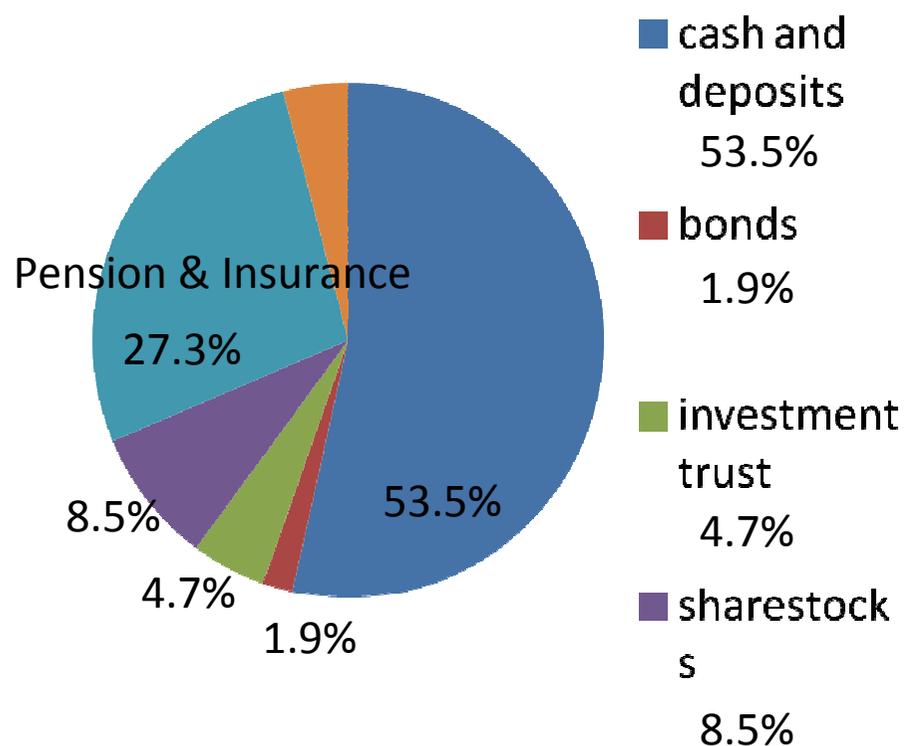
Demographic Change Prospect

[出典: 国立社会保障・人口問題研究所 日本の将来推計人口(平成24年1月推計)]



Financial Account

Household financial assets:
1,598 trillion yen



Governments borrowing outstanding
1,010 trillion yen

2013 FY Budget

Annual tax and other revenue 47.1

Borrowings 45.5

Total 92.6

Expected JGB Balance
as of March 2015

780 trillion yen

Central and local governments debt
Debt total
1,010 trillion yen



Economic Growth Perspective

Special committee at Social Security Council MHLW
100 years for sustainable social Securities

Growth estimate based on Cabinet Office

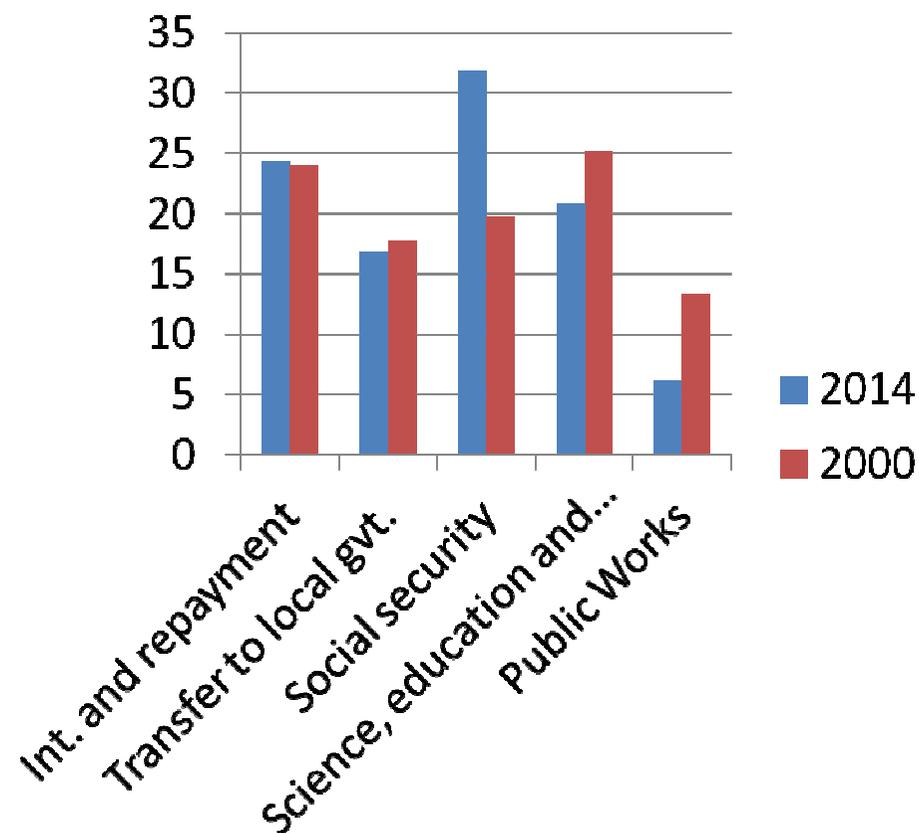
TFP +0.5~1.8% pa of improvement
Labor input 2010 1,152 (100 million hours)
2050 760~836 (-ditto-)
-0.3~-0.8 % pa of decline
Rate of profit 8.4~8.6%

	Real term	CPI	Nominal yield
High growth	1.4 %	2.0 %	6.0 %
High growth followed by low growth	0.4 %	1.2 %	4.2 %
Continuous low growth	-0.4 %	0.6 %	3.0 %

Outline of Japan's social security

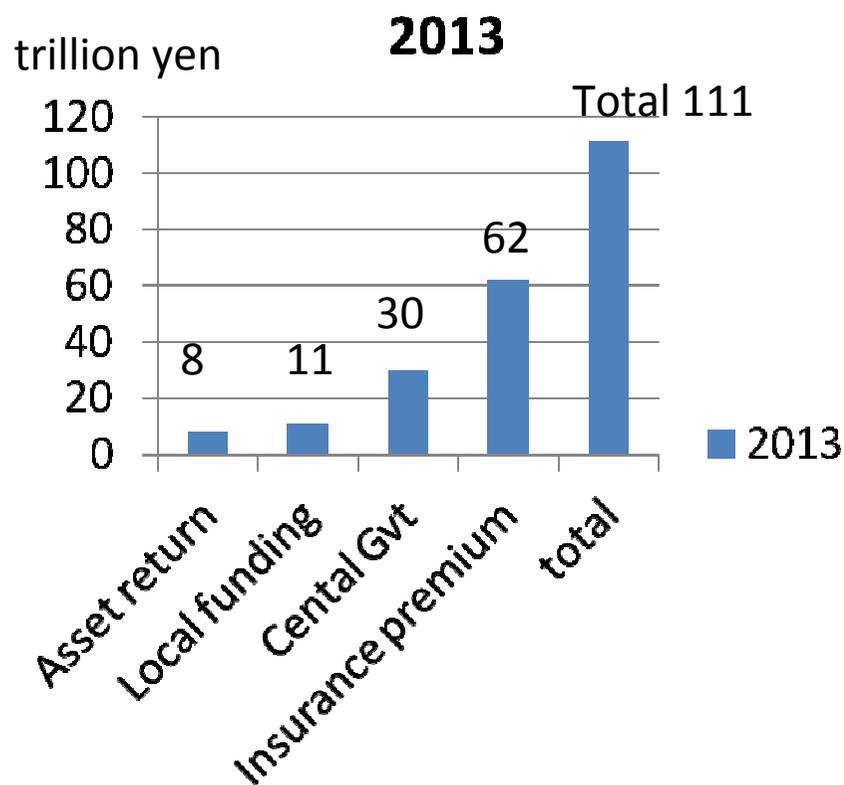
- Medical security
- Job security
- Pension
- Child care & nursery

Percentage of annual central government budget



Sources of social security funding

5% to 10 % Effect of tax increase for social security
-- --Decrease of Government budget support



FY 2014 gap funding(trillion yen)
 $37.8 - 11.2(\text{consumption tax}) = \mathbf{26.6}$

FY 2018
 $44.5 - (11.2 + 14.0 \sim 5\% \text{ increase of C. tax}) = \mathbf{19.3}$

Payout breakdown

Annual budget 2014

- Nursing care of elderly

And welfare

21.1 trillion yen

(9 trillion yen for elderly
care)

Medical care

36.0 trillion yen

- Public pension

53.6 trillion yen

Controlling payout increase of public pension

Automatic Payout Adjustment to macro economic data

-maintaining public pension sustainability

- Change of number of public pension insured people
- Change of average expected life
- CPI
- Average wage

Medical care and Child care system

Child and baby care taking

- Increasing support
0.7 trillion yen

- child education and
nursery

Medical care

Increasing support
1.5 trillion yen

Japanese pension system

Year 1961 as start of whole nation coverage

3 types and 3 stories

- Type 1 pension for whole nation (mandatory)
20~60 years old and 60~70 old of employee to pay:
15,250 yen pm of premium
(pay as you go)
- Type 2 pension for private employed to pay
16.766% of monthly salary
(defined benefit)
- Type 3 pension for civil servant

Stories

- 1F Basic
- 2F Additional fund
for each 3 types
- 3F Corporate fund for additional pension
(some are defined contribution)

Beneficial payment to start

from 65 years old

-- Basic pension

66,000 yen month

--- Privately employed average

152,000 yen month(FY 2012)

Sustainability issue and coverage

Review made year 2009 ; Pension to wage substitute ratio

	Birth ratio expectation		
	Low 1.06%	Medium 1.26 %	High 1.55%
Price increase 1.0% Wage Increase 2.0% Yield 4.2%	47.5% ~2040	50.7% ~2037	54.6% ~2032
CPI 1.0% Wage 2.5% Yield 4.1 %	46.95% 2041~	50.1% 2038~	53.9% 2033~
CPI 1.0% Wage 2.1 % Yield 3.9%	43.1% 2048~	47.1% 2043~	51.55% 2038~

Issues surrounding GPIF

Issues discussed

- Change ratio of asset allocation
- Introduction of new asset class
-infrastructure etc
- Asset liability management to
Liability driven investment
- Possible introduction
Defined contribution method by
Walter Riester

Current GPIF

Fund scale 124 trillion yen

Model portfolio

60% \pm 8% domestic bonds

(panel recommend to 52% asap)

12% domestic equities

11% foreign bonds

12% foreign equities

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