



# 2021 PENSIONS AT A GLANCE

*How does Japan compare?*

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# RECENT DEVELOPMENTS IN PENSIONS



# Limited impact of COVID-19 on pensions in Japan similar to most other OECD countries

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- Safeguarded pension **benefits**; introduced temporary and targeted **income support measures** for current pensioners
- Extraordinary measures protected **pension entitlements** :
  - expanded use of job retention schemes, in which generally pension entitlements accrued;
  - subsidised pension contributions;
  - extension of unemployment protection;
  - specific measures benefiting the self-employed;
  - strong financial markets performance.
- **Pension finances deteriorated due to lost contributions.** Shortfalls have been mainly covered by state budgets
- Due to excess mortality, the number of **people older than 65 has declined by about 0.8%** in the OECD on average, which has slightly lowered pension spending.



# Main reforms over the past two years in OECD countries

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- **Substantial increase of mandatory FDC contributions** in Mexico, boosting future pensions; Greece replaced NDC by FDC for auxiliary pensions; Estonia made private pension contributions voluntary and allowed to withdraw assets.
- **Substantial improvements of low pensions** in Chile, Germany, Latvia, Mexico, the Slovak Republic and Slovenia.
- **Limited action on retirement ages:** Sweden (increase), the Netherlands (postponed) and Ireland (postponed).
- **Extended early retirement:** Denmark, Ireland, Italy and Lithuania.



# What were the main 2020 reforms in Japan?

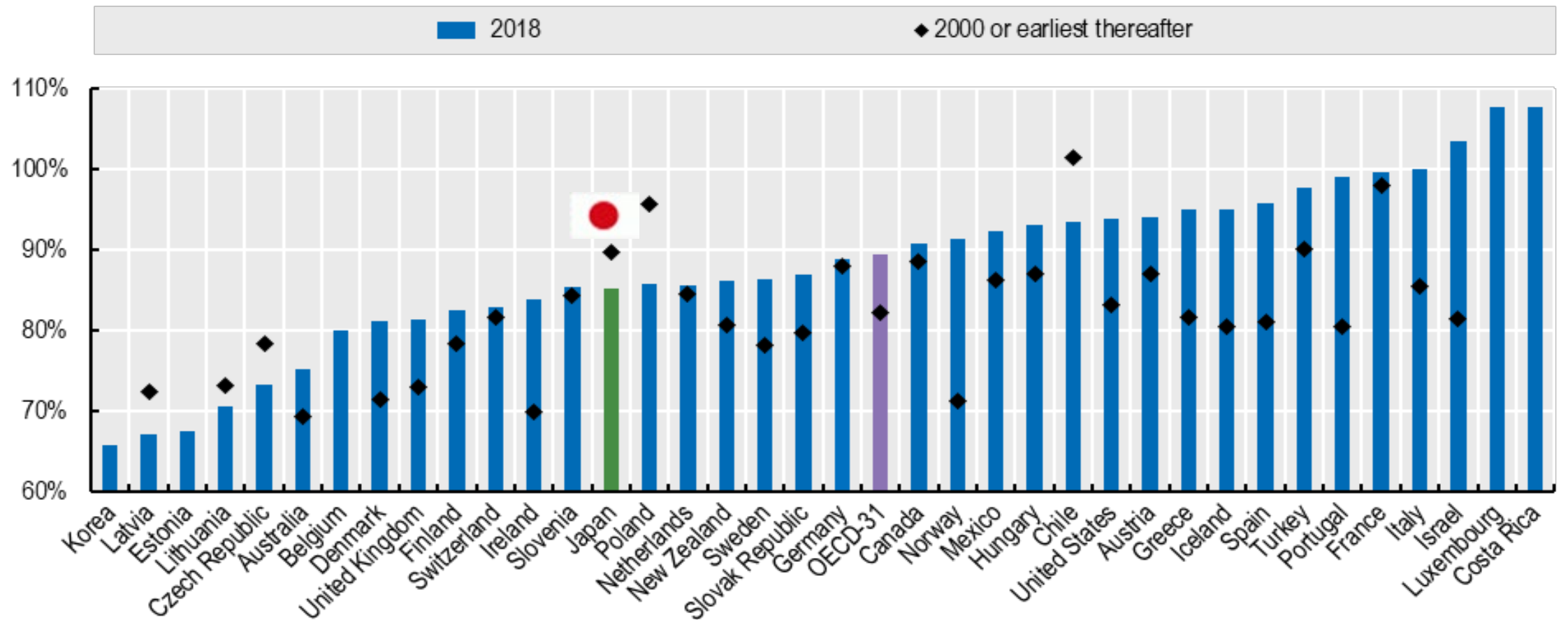
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- **Ease the restrictions on combining work and pensions**  
Japan decided to raise the total income threshold that reduces pension benefits JPY 280 000 to JPY 470 000 starting in 2022.
- **Expand the pension coverage of part-time workers**  
Coverage of mandatory pensions will extend to those working at least 20 hours a week per month in companies with more than 100 fulltime-employees in 2022 and more than 50 in 2024.
- **Provide an option to defer pension payments until age 75**  
From 2022, it will be possible to defer the claim until age 75 old (previously 70 years) under the basic pension(National Pension) and mandatory pensions.



# Average income of people aged over 65 in Japan is lower than that of the total population and lower than in 2000

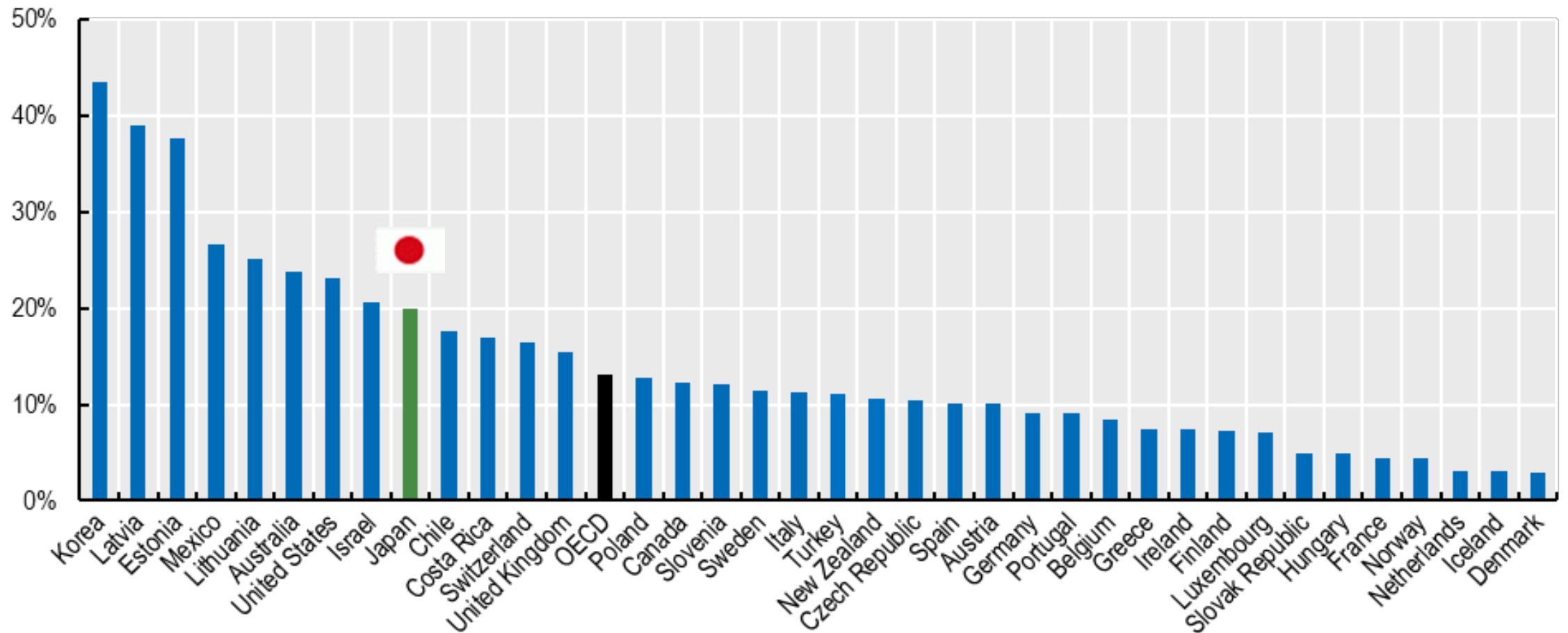
The average disposable income of people aged over 65, percentage of average disposable income of total population





## One-fifth of those over 65 are relatively income poor

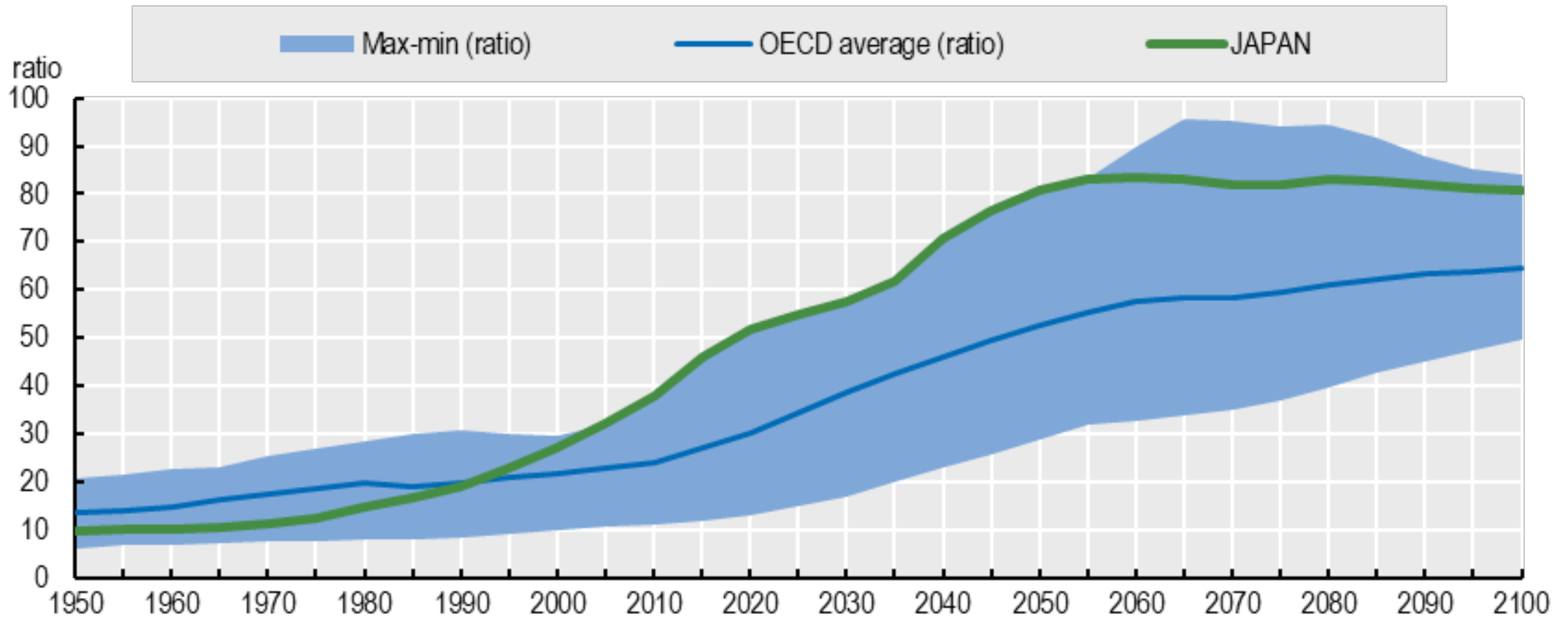
Percentage with income less than 50% of the median equivalised household disposable income, latest available year





# The old age to working-age ratio has been the highest in Japan since 2000s

Number of people older than 65 years per 100 people of working age (20-64), 1950-2100

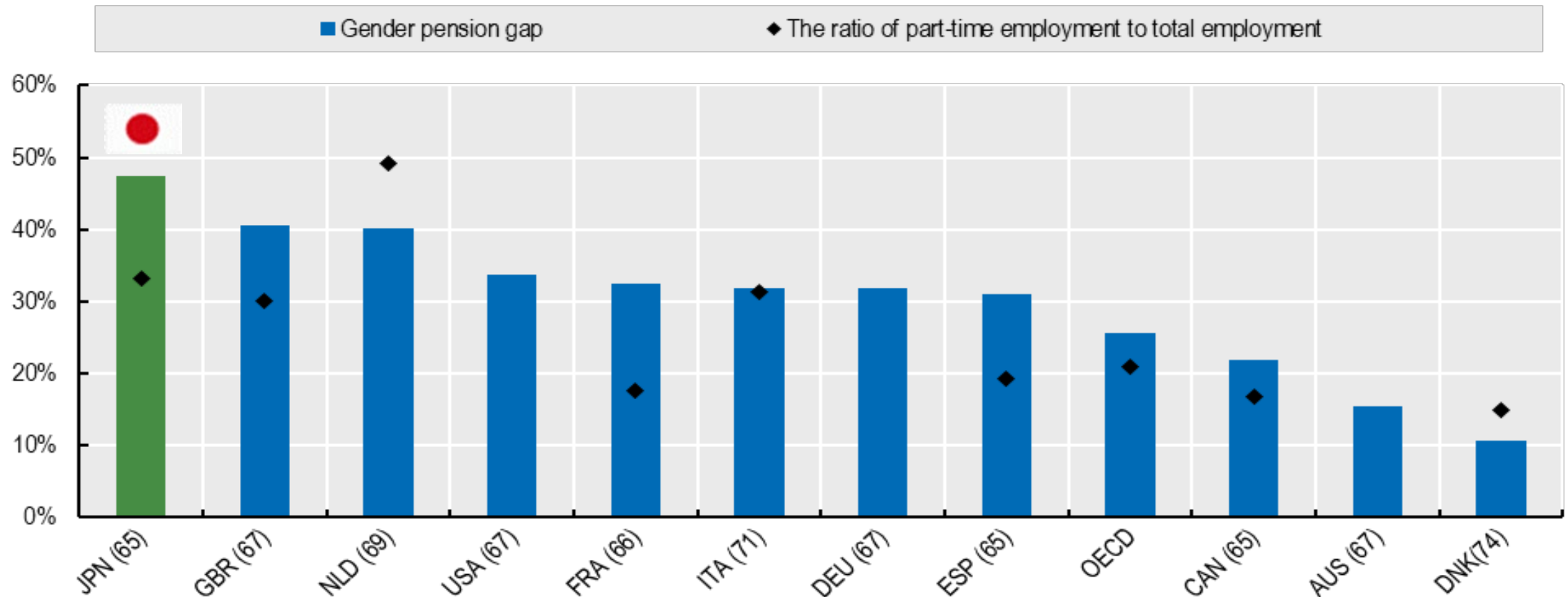






# A large gender pension gap with one-third of Japanese women working part-time

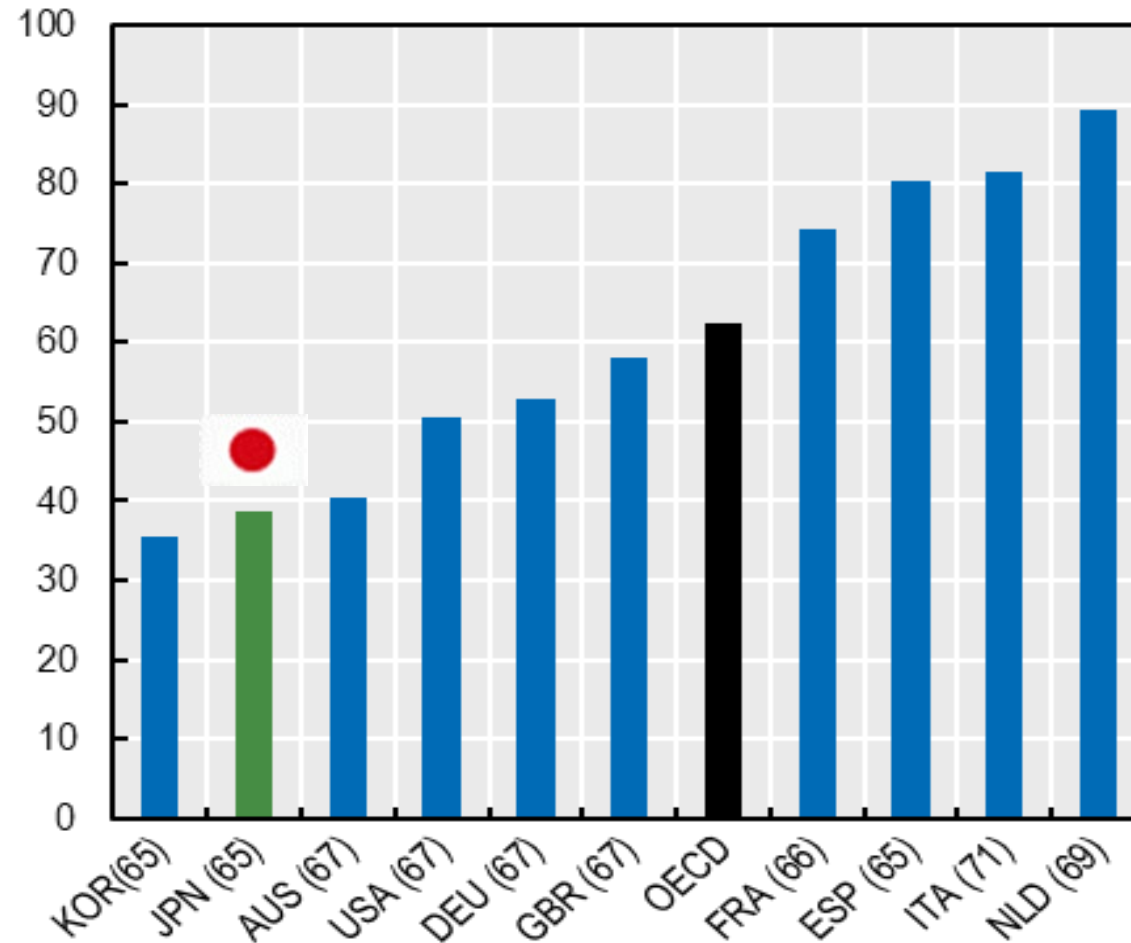
Relative difference between men and women aged 65+ (among pension beneficiaries), %  
The ratio of part-time employment to total employment(women, 25-54), %





# Future replacement rates from mandatory pensions are low

Net future pension replacement rates, full-career at average wage, %



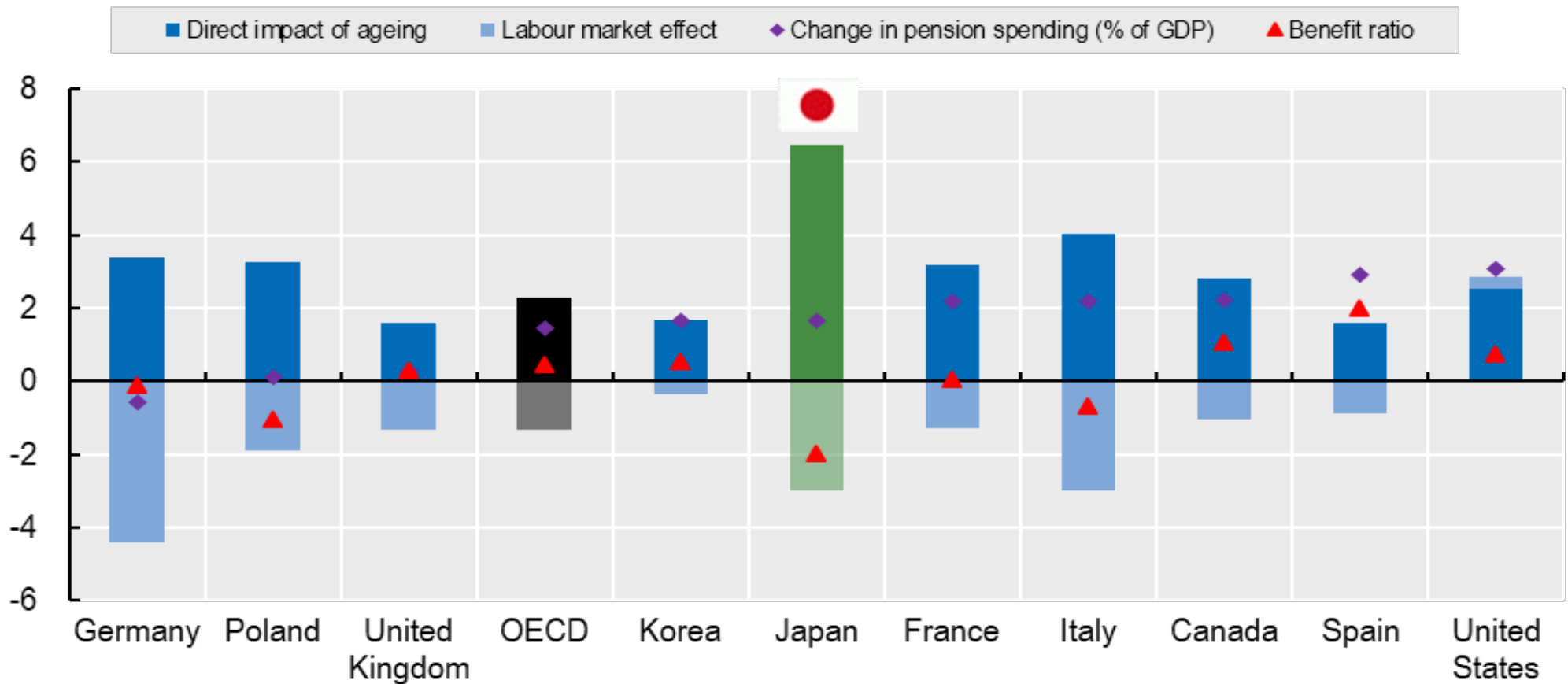


# AUTOMATIC ADJUSTMENT MECHANISMS



# Strong employment and lower benefits have substantially reduced the impact of ageing on pension spending in Japan

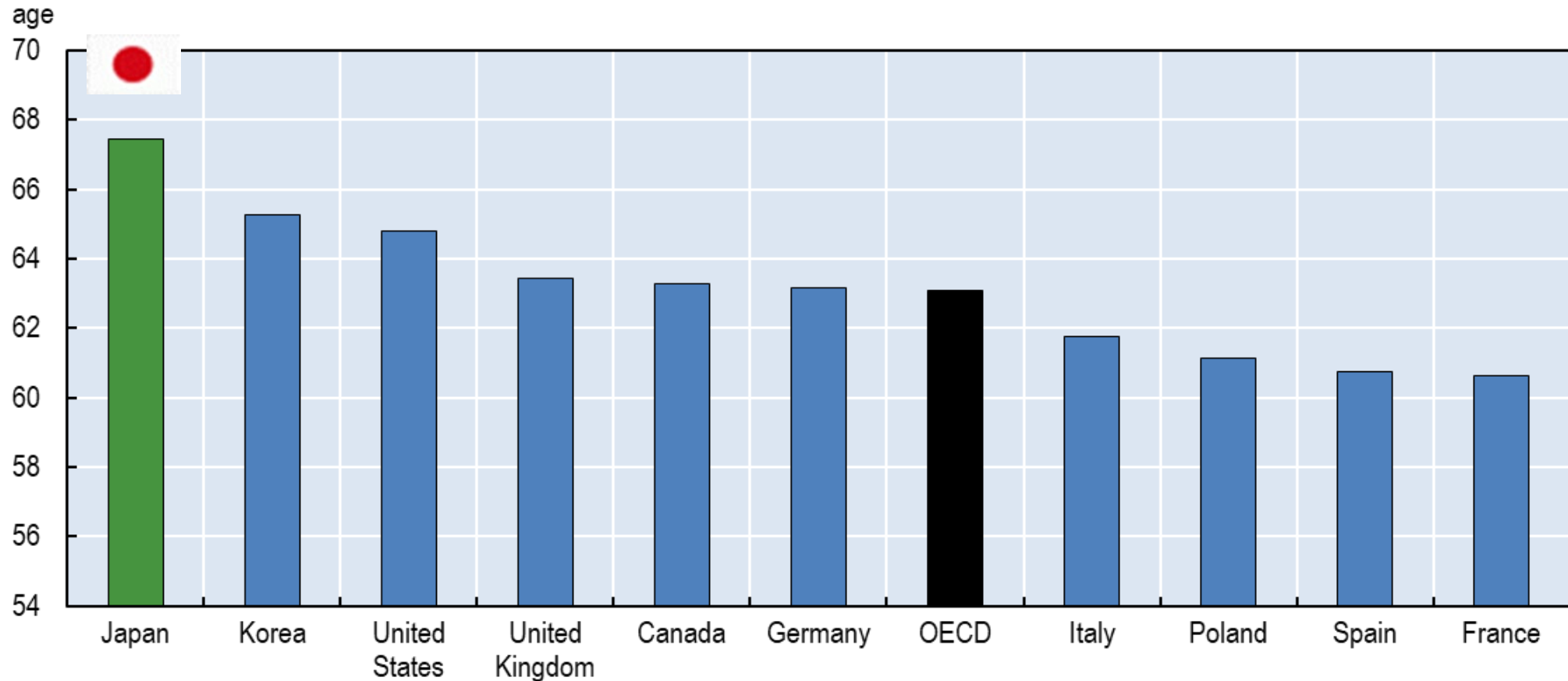
Change in pension expenditure in GDP between 2000 and 2017 and contribution from different factors, in percentage points





# Average labour market exit age is the highest in the OECD

Average age of labour market exit, average(men and women), 2020





# What are Automatic Adjustment Mechanisms?

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- AAMs are increasingly used to **uphold financial sustainability**
  - Historically developed to protect pension levels (standard indexation mechanisms)
  - 2021 edition of *Pensions at Glance* studies AAMs beyond standard indexation
- AAMs are **predefined rules** that
  - automatically change pension parameters or benefits
  - based on the evolution of an indicator
- AAMs **protect** pension systems
  - against demographic, economic and financial uncertainties



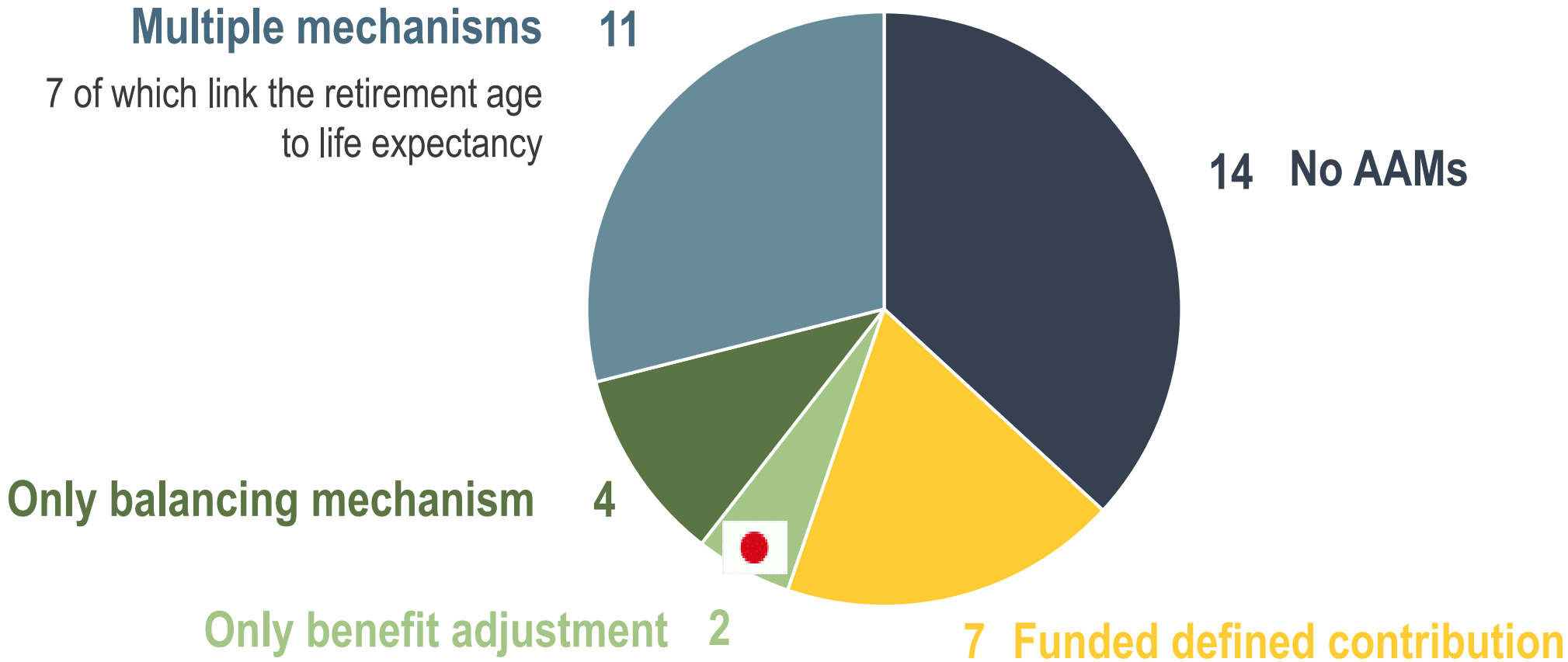
## Why use AAMs?

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- Compared to discretionary reforms, AAMs are
  - **less erratic**
  - more **transparent**
  - more **equitable** across generations
- AAMs reduce
  - **political cost** of maintaining or improving **financial sustainability**
  - **need for subsequent reforms**
- AAMs can only provide financial sustainability **if they are politically sustainable**
  - need for wide political agreement on their introduction
  - anticipated long enough to avoid harsh adjustments
- Policy-makers retain **full control** over pension system



# AAMs exist in about two-thirds of OECD countries







## AAM in Japan: “Macroeconomic indexation”

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- Type of sustainability factor introduced in 2004 to **improve pension finances**.
- The mechanism applies a **correction to both price indexation** of pensions in payment and, for new pensions, **the uprating of past wages** based on the average wage.
- Correction depends on the growth rate in the **total number of contributors to public pensions** minus a fixed factor that is in principle a proxy for life-expectancy gains at 65.
- Negative price inflation or negative wage growth **limit the full application** of the mechanism.



## Impact of “Macroeconomic indexation”

- Japan has a **safeguard** allowing for the suspension of adjustments if pensions are expected to fall below a certain threshold.
- “Macroeconomic indexation” ends when pension finances are estimated to ensure **financial sustainability** over the long term.
- According to government’s estimates, **the AAM will end:**
  - in **2025** for mandatory earnings-related pensions
  - In **2047** for National pension (flat-rate basic pension)
- Based on OECD projections taking these estimates into account, “macroeconomic indexation” **reduces future pensions by 13%** at the average-wage level



# CONCLUSION



## Conclusion: 2021 Pensions at a Glance and Japan pensions

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- Limited impact of COVID-19 on pensions in Japan, similar to most OECD countries
- Very strong ageing pressure in Japan. It weighs on financial sustainability while pension benefits are relatively low.
- Old-age income poverty is a serious source of concern for Japan, especially among women.
- Easing restrictions on combining work and pensions and extending pension coverage of part-timers, decided in Japan over the last two years, go in the right direction
- Automatic adjustment mechanism in Japan is done through Macroeconomic Indexation (MI). MI allows to share the adjustment burden between workers and pensioners but its implementation has been limited due to low inflation.
- Lower pension benefit ratios have helped contain increases in pension spending, but if ageing pressure continues to be addressed through this channel, pension adequacy will be at risk.



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ADDITIONAL SLIDE



# AAMs adjusting benefits and/or retirement ages

|  | Adjusts to life expectancy | Adjusts to size of the working population |
|--|----------------------------|---|
| Funded defined contribution <ul style="list-style-type: none"><li>• Annuities: benefits adjusted</li><li>• Lump sums: people manage own longevity risk</li></ul>                   | •                          |   |
| Notional defined contribution <ul style="list-style-type: none"><li>• Italy, Latvia, Poland</li><li>• Norway, Sweden</li></ul>   | •<br>•                     | •   |
| Benefit adjustments <ul style="list-style-type: none"><li>• Finland</li><li>• Estonia, Greece, Japan, Lithuania</li></ul>  | •                          | •   |
| Retirement age adjustments <ul style="list-style-type: none"><li>• Full: Denmark, Estonia, Greece, Italy</li><li>• 2/3<sup>rds</sup>: Finland, the Netherlands, Portugal</li></ul> | •<br>•                     |   |