

Japan

The Japanese public pension system has two tiers: a basic, flat-rate scheme and an earnings-related plan.

Qualifying conditions

The old-age, basic pension is paid from age 65 with a minimum of 25 years' contributions. However, reduced benefits can be received from age 60. The earnings-related pension is paid in addition to the basic pension, with a minimum of one month contribution, provided a pensioner is entitled to the basic pension. The pension age under this programme is gradually being increased from 60 years to reach 65 years for men in 2025 and for women in 2030.

Benefit calculation

Basic

The full basic pension for 2002 was JPY 804 200 per year, corresponding to 19% of average earnings. Average receipt of the basic pension is around JPY 620 000 per year. The value of the basic pension is price indexed.

Earnings-related

The employees' pension scheme has a flat-rate and an earnings-related component. The most important part is the earnings-related pension. The accrual rate was 0.75% of lifetime average earnings, gradually falling to 0.7125%. Past earnings are valorised in line with earnings. There is a ceiling on earnings applied to calculate contributions; it is set at JPY 620 000 a month equivalent to 175% of average earnings.

The flat-rate benefit amounts to JPY 1 676 per month of contributions. This is paid only to pensioners between 60 and 64 years. As the model assumes retirement at 65, this component is not included.

The employees' pension in payment is price indexed.

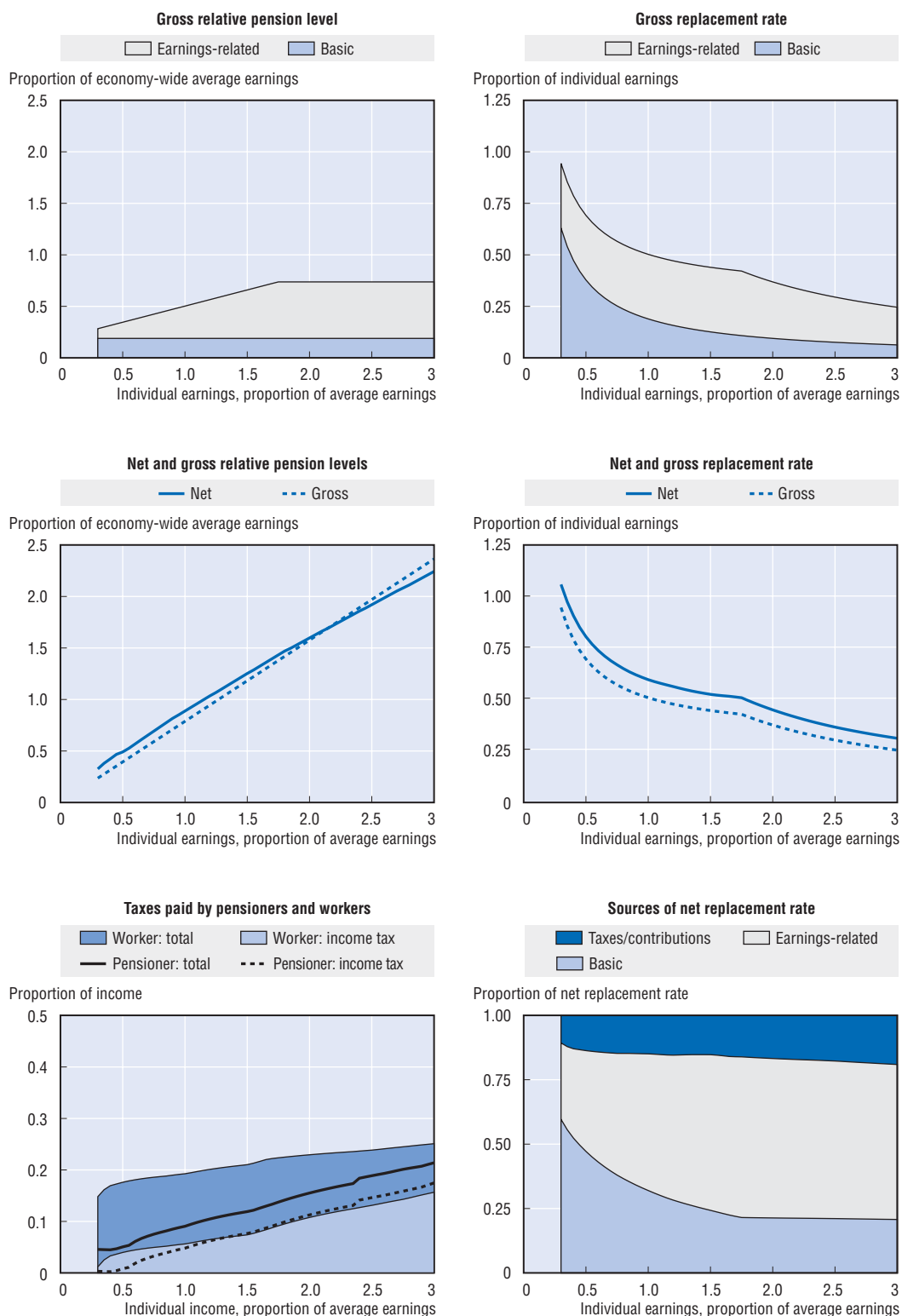
Personal income tax and social security contributions

Taxation of pensioners

There is an additional JPY 500 000 deduction for over 65s if their income is less than JPY 10 million in total.

There is a schedule of deductions for over 65s, beginning with 100% of the first JPY 1 million of income from the public pension scheme (or from a particular type of private pension scheme: a tax-qualified retirement plan). Next, 25% of income up to JPY 3.6 million is deductible, followed by 15% of income up to JPY 7.2 million and 5%

Pension modelling results: Japan



Source: OECD, based on information provided by the countries.

thereafter. Finally, the deduction is subject to a minimum of JPY 1.4 million. The 40% deduction applies to the first JPY 1.8 million of earnings for people with earnings, while the minimum deduction is JPY 650 000.

Taxation of pension income

There are no special rules for the taxation of pension income.

Social security contributions payable by pensioners

Contributions to health insurance and elderly care insurance are levied on pension income.

Pension modelling results: Japan

Men	Individual earnings, multiple of average					
	0.5	0.75	1	1.5	2	2.5
Women (where different)						
Gross pension level (% of average earnings)	34.6	42.4	50.3	65.9	73.7	73.7
Net pension level (% of average net earnings)	40.9	50.2	59.1	76.1	84.5	84.5
Gross replacement rate (% of individual earnings)	69.2	56.6	50.3	44.0	36.9	29.5
Net replacement rate (% of individual net earnings)	80.1	66.3	59.1	51.9	44.3	35.8
Gross pension wealth (multiple of average earnings)	5.7	7.0	8.3	10.9	12.2	12.2
Net pension wealth (multiple of average net earnings)	6.8	8.3	9.8	12.6	14.0	14.0
	7.6	9.4	11.0	14.2	15.8	15.8

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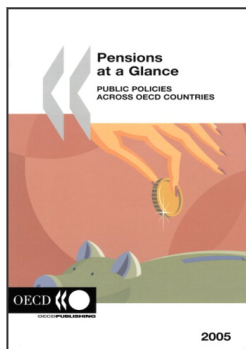
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