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Corporate Pension Reform in Japan: Big Bang or Big Bust?

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Disciplines

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Abstract

This paper investigates the events leading up to the passage of defined contribution pension legislation in Japan in June 2001. Expectations ran high that defined contribution (DC) legislation would induce a massive wave of DC plan conversion as Japanese companies began unloading their traditional defined benefit (DB) plans. However, despite the continuing pressures on Japanese companies, such a widescale movement did not occur. What appeared as a clear solution in the new DC option, then becomes a puzzle given the lukewarm response in Japan. Here I argue that the main determinant of corporate decision-making on the pension issue was the binding constraints of the DC legislation, not the paternalistic ways of Japanese companies. In broader strokes, this analysis also sheds light on the nature of policymaking in Japan today.

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In recent years, Japan has attracted nearly as much international attention for its pension crisis as the nation once did for achieving record levels of high growth. This latest attention, however, is not eliciting emulation or envy from other nations, but rather it is highlighting a situation to be avoided. Indeed, it is a scenario that is – or will be – playing out in other developed nations, but it plagues Japan more critically. The pay-as-you-go (PAYG) nature of Japan's pension system is not particularly unique in a global context, but the speed with which the country's contribution base is shrinking, relative to current and future retirees, is unusual. In the face of such rapidly changing demographics, employers worry about their ability to pay the pensions of retirees through defined benefit schemes.

The Japan case represents a nearly unparalleled cause for concern due to the intersection of three demographic trends: a birth rate in sharp decline, a baby boom generation approaching retirement, and steady longevity increases during the postwar era. The subsequent disequilibrium between contribution inflows and benefit outflows creates stress on the system and necessitates increased pension expenditures, the slashing of future benefits, or some combination thereof. Either way, an intergenerational gap or disparity between lifetime contributions and benefits emerges. As these developments unfold in Japan, it is becoming clear that the piecemeal approach followed initially by the country has created a growing sense of unease regarding the system's solvency.

In 2001, legislation permitting defined contribution (DC) pension plans in Japan appeared to create an opportunity to disaggregate demographics from corporate retirement benefits, while

expanding private sector participation in the country's equity markets. Lauded as the final step of the deregulation of the Japanese financial system, expectations soared in the global investment community. Foreign firms quickly set up shop in Japan, hoping to secure a foothold in the new market and unlock the vast savings of the Japanese citizens. Cerulli (1999) reported industry estimates of DC plan growth at between ¥8 trillion and ¥15 trillion within five years.

The introduction of new accounting standards for retirement benefits in 2000 were another reason for optimism. For the first time, the projected benefit obligations (PBO) of corporate pensions would be recorded on the balance sheet as a liability, making the funding status of a firm's pension system more transparent to investors, employees, and other stakeholders. To manage this exposure, Japanese firms were expected to seek ways to cap liabilities for pension benefits and severance pay. DC plans could provide one such outlet.

Nevertheless, these developments were not met with the warm reception initially anticipated. Some 70 DC plans were established in the first year, but only 538 had been established as of late 2003. This pales in comparison to the total number of private defined benefit (DB) pension plans, which prior to the legislation, had totaled around 80,000 plans (Nikko Financial Intelligence 2003).¹ To understand this less than enthusiastic takeup of DC plans in Japan, I first analyze corporate behavior against the limitations of the law. Next I evaluate the political process surrounding the DC legislation, where I argue that this process ultimately shaped the lackluster acceptance of DC plans. I conclude by contemplating the future debate on Japanese pensions and offer some perspectives on policy outcomes and the role for Japanese political leadership in this process.

History Provides Guidance

“As far back as the Edo period, employers have issued retirement allowances as a way of saying ‘*otsukaresama deshita*’ (thank you for your hard work).” Kiyooki Fujiwara (2003), Keidanren

A history of corporate pensions in Japan usually starts with the first formal legislated corporate pension plan, introduced in 1968. Yet Fujiwara (2003) recounts how the issuance of retirement allowances under a notion of ‘*otsukaresama deshita*’ (thank you for your hard work) dates back to the Edo period (1603-1867), which established a tradition of severance or lump-sum retirement allowances in Japan. As Usuki (2003) explained:

Severance payments began to spread between 1910 and 1920... During the economic boom around 1920 (during the Taisho Era), such payments were used as a tool to induce workers to stay with their employers, but during the recessionary period in the latter half of the 1920s they were more often used as compensation for forced termination benefits.

A shortage of labor during WWII and the establishment of a public pension with the Workers’ Pension Insurance plan (1942) and its successor, the Employee Pension Insurance plan (EPI; 1944), effectively eliminated the need for separate retirement benefits provided by the employer.

During the post-WW II period, inflationary pressures reduced the adequacy of the benefits paid under the EPI, prompting many firms to introduce their own retirement programs. The Minister of Health, Labor, and Welfare (MoHLW) found that 97 percent of businesses with 500+ employees, and 60-70 percent of other businesses, had rules for severance payment plans by 1956 (Usuki 2003). As severance payments became a general practice, an increasing number of large companies began to use externally accumulated assets for funding rather than holding only book reserves for pension benefits. To encourage or perhaps accommodate this behavior, Tax Qualified

Pension Plans (TQPPs) were introduced in 1962 and they recognized contributions as expenses for tax purposes.

By 1965, a growing awareness of the inadequacy of public pension benefits to maintain a standard of living commensurate with the economic prosperity of the high-growth era led to a significant increase in the level of the EPI (Usuki 2003). Coupled with this benefit increase, though, came an increase in social security taxes for employers, and a growing disparity between the TQPPs and the lump-sum severance allowances and the EPI. Management cried for relief from the double burden of the latter. The government responded with the creation of the Employee Pension Fund (EPF) in 1966, which granted companies the rights to administer and invest the income-related portion of the EPI (transferred from the government to the company and referred to as “contract-out”). With this piece of legislation, Japan’s pension system of co-mingled public and private benefits was born.

Figure 1 here

Whether intended or not, the announcement of new accounting standards for retirement benefits in fiscal 2000 forced at least the accounting recognition to be in line with the concept of retirement benefits as deferred wages. With net present values of future retirement liabilities recorded on corporate balance sheets, Japanese corporate actors began to view their corporate pensions strategically, especially as these liabilities proved capable of impacting their balance sheets so profoundly.

Demographic Challenges

The societal phenomenon of *korei* (aging) coupled with *shoshi* (few children) has created an experience unique to Japan among nations. An aged population structure is “the result of a

complex interaction between mortality and fertility over time” (Hiromitsu 2000: 230). Public health and medical technology in the post-World War II era led to dramatic drops in infant mortality as well as mortality rates for other age groups. In addition, Japan sports the highest life expectancy for both males and females in the world² (World Health Organization 2001). When a population is aging, though, fertility is equally as important as mortality since fewer new babies translates into a greater proportion of elderly people in the total population. Japan’s fertility rate, or the average number of children that a woman has during her lifetime, has been in constant decline since 1950. From 3.65 in 1950 to 2.13 in 1970 (Hiromitsu 2000: 231), the fertility rate dropped further to 1.29 in 2003 (Yoshida 2004).

Japan’s working population, after five decades of steady growth, has begun to decline and will continue to do so as the postwar baby boomers begin to reach retirement age. The population as a whole is on track to shrink nearly 20 percent by 2050, after reaching its expected peak in 2005 (Japan Times 2003, 25 October). As the number of older people relative to younger people increases, there are more pension beneficiaries per working individual. The “dependency ratio”, or the ratio of working age population (age 15-64) to pensioners in Japan has changed dramatically over the years, and it is expected to drop from 4:1 in 2001 to just 2:1 in 2025 (Schoppa 2001). In contrast, the U.S. is expected to have 3.25 working-age adults for every retiree in 2025. Pensions and medical expenses could push the share of government and social-insurance spending in the Japanese economy to more than 60 percent by 2025 (Schoppa 2001). Uncertainty about how Japan will finance this burden is putting strain on the government’s bond ratings. In May 2002, Moody’s classified Japan’s credit rating beneath that of Botswana; one month before, Standard & Poors downgraded Japanese government bonds to AA-.

Japan's public pension system is predominantly PAYG, although past surpluses do provide an extra cushion of funding. This cushion has grown thin with the Employees' Pension System posting its first deficit in 2001 (Cabinet Office 2003). Kunji Okue, an economist at Dresdner Kleinwort Wasserstein, estimates that the public pension investment fund will run cumulative deficits worth 27 trillion yen³ over the next five years and describes the national pension plan as the current Prime Minister (Junichiro Koizumi)'s 'time bomb' (Belson 2003).

Other Strains on Japan's Pension System

The demographic strain on the Japanese system has been exacerbated by the rising number of self-employed workers who simply do not pay their pension premiums. Unlike salaried workers whose premiums are automatically deducted from their pay, roughly 18 million self-employed people and students age 20+ are required to pay their premiums directly to the government for the basic portion of the national pension program. In fiscal 2002, those who failed to pay their contribution premiums to the national pension program reached a record high of 37.2 percent, or nearly four in ten (Japan Times 2003, October 27). In a recent controversy, top government officials including the prime minister were revealed to be in arrears with their pension contributions (Washington Post 2004).

Further, public skepticism over the national public system is growing. According to a 2003 *Yomiuri Shimbun* survey, 57 percent of the public said they had no faith in the system (Daily Yomiuri 2003). This is the highest figure recorded in the seven-year history of the survey, up 3.7 percentage points from the previous survey. Moreover, the same article indicated that, among respondents in their 20s, the lack of confidence in the system was a staggering 82 percent who said they did not trust the scheme.

Seeking to bolster the current system, the government has stated that it will increase its share of public pension funding from one-third to one-half by fiscal 2009. The additional burden is expected to cost the government an additional 2.7 trillion yen per year, but the source of that funding is as yet unclear. (Japan Times 2003, December 18).

It is interesting that the office directly responsible for the management of social security programs, the MoHLW, has being singled out as the worst offender of mismanaged funds among the 12 government ministries and 18 state-funded corporations in Japan (Japan Times 2003, December 8). This marks the 14th consecutive year that the MoHLW⁴ has received this relegation from the Board of Audit, an independent commission that works outside the jurisdiction of the Cabinet. For 2002, the Board estimated that the MoHLW had mismanaged some 12 billion yen. How that amount was mismanaged was not entirely clear, but it raises doubts over the Ministry's credibility and lends support to the belief that the MoHLW suffers from reduced bargaining power in inter-ministerial discussions, especially concerning its handling of the ailing pension system.

Other structural problems also plague the system. A growing burden-benefit disparity is creating a rift between the young and elderly. Those born in 1950 currently anticipate receiving benefits worth five times their lifetime contributions (Amyx 2002), but the Japanese government forecasts that those now age 20-40 ultimately will pay more into the system than they will ever receive in benefits (Japan Times 2003, October 25). This generational inequity is also discussed by Hatta and Oguchi (1999) who show that, for those born before 1970, lifetime benefits from the National Pension System exceed lifetime contributions, but for those born after 1970, lifetime benefits will fall short of lifetime contributions. Horioka (1999) notes at least two reasons for this: At the time of the 1973 pension reform, benefits were generous relative to contributions, especially for those close to retirement. This necessitated cuts to the benefits of younger cohorts, as well as

increases in their contribution rates. Second, although the aging of the Japanese population is a long-term phenomenon caused by rising life expectancy and falling birth rates, there is also a bulge in the need for larger contributions from the younger working cohorts to finance the benefits of the unusually large baby boom cohort.

Managing an Underfunded Plan

On the corporate front, pension underfunding is drawing attention as an area of fundamental concern for companies. A 2003 report showed that pension fund assets at 100 of Japan's largest companies covered less than half the cost of payments due to retirees (Jopson 2003). This figure is particularly striking because pension deficits were substantially reduced by the 2003 rally in Japanese stocks. The costs of managing pension deficits present an additional problem expected to persist over the next decade, and the evidence suggests that DB plans represent a continuing underlying structural weakness plaguing many Japanese companies.

The Lost Decade: Recession Japan. The Japanese economy has experienced a long and painful recession for over a decade. Amyx (2003) comments, “The contrast between Japan’s rise as an economic juggernaut and the stagnation that has typified economic performance since the bursting of the asset bubble in 1991 is stark.” In macroeconomic terms, Japan’s lost decade dissipated a substantial portion of the national wealth created in the previous four decades. Unfortunately, this lost wealth would have helped finance the sizable pension benefits promised to retired workers in the 21st century.

As Northern Trust’s Ted Krum (personal discussions, 2003) explains, a prolonged bear market has had unfortunate consequences:

It is difficult for outsiders to appreciate the psychological impact this will have on an entire generation of workers and investors. ...the pain and fear of loss are more intense than the enjoyment of success. Investors who have lost a great deal of money will work hard to reduce risk, making it a higher priority than return. They will even take small, certain losses to avoid the possibility of larger losses later on... They focus on the near-term risk of financial ruin, but cease to work toward the long-term accomplishment of their goals.

Seeking to propel the economy from its slump, the Japanese government introduced in 1996 the “Big Bang,” a policy package initiating massive deregulation and liberalization of the nation’s financial sector. In the years that followed, one fiscal stimulus package followed another, and fiscal debt rose to over ¥666 trillion (\$5.6 trillion) or 130 percent of GDP (Schoppa 2001).

Dissipating Saving. With the public pension system hanging in the balance, one might expect personal saving to emerge as the primary form of income for many Japanese retirees. Yet, there are signs that the Japan of high-savers is slowly dissipating. Figure 2 shows how Japan’s saving rate fell below the levels recorded in France and Germany in 2001, and it has been trending towards the U.S since then.

Figure 2 here

According to flow-of-funds numbers published by the Bank of Japan, money put into saving or stock investments by households between 2002 and 2003 fell about ¥1.3 trillion short of the combined amount of borrowings and saving in the same period (Yomiuri Shimbun 2003). The household saving rate, or the amount of money each household puts into its saving from its after-tax income, dropped from 11.1 percent in 1999 to 9.8 percent in 2000, and to 6.9 percent in 2001, according to the “System of National Accounts”(Cabinet Office 2003). Changing demographics are certainly a key driver of this trend. The Cabinet Office (2003) reported that the percentage of households consisting of non-employed elderly people expanded from 13.8 percent in 1995 to 22 percent in 2002, and their saving rate (i.e., the ratio of saving against income) fell from -11.5

percent to -26 percent. In other words, a growing proportion of Japanese households had a negative saving rate that became increasingly negative as saving was drawn down to cover income shortfalls. As Figure 3 indicates, the number of elderly households in Japan is rising in concert with the declining saving rate.

Figure 3 here

Given the instability of the public pension system, rising life expectancy, and the impact of a declining national saving rate and aging population on economic growth, corporate pension plans assume new importance in Japan. Indeed, the 2001 passage of the Defined Contribution Act and the subsequent 2002 Defined Benefit Occupational Pension Act increased plan choice for Japanese employers. These laws, however, need to be viewed within the broader context of “Big Bang” deregulation of the Japanese financial markets.

Japan's Not-So Big Bang. In the aftermath of high-profile collapses at Sanyo Securities, Hokkaido Takushoku Bank, and Yamaichi Securities in 1997, Japan's long-held resistance to deregulation and changes in securities and tax laws seemed to dissipate. During the next two years, the country began implementing *kisei kanwa* (deregulation or 'rule relaxation'), which resulted in the abolishment of the 5-3-3-2 regulation⁵ and the rules regarding investment allowed through investment advisory companies. In 1998, the Japanese Government announced a Financial System Reform Law, which amended 22 banking, investment trust, and securities laws. Regulations on pension fund management eased in accordance with the Big Bang and the internationalization of the global financial markets. The wave of deregulation paved the way for foreign firms to sell their products through new distribution channels in Japan. With 51 percent of the U.S. population and only six percent of the assets in its mutual fund industry, Japan and its Big Bang seemed like a "big break" to foreign investment firms (Business Wire 1999).

Under the changing economic reality of the Big Bang, Japanese companies grew desperate to find a way to reduce costs and an ever-expanding wage bill (only heightened by the aging workforce), but they lacked a mechanism to resolve their unwieldy pension plans. From his experience at Nippon Steel, Former Chairman Imai of the Japan Federation of Economic Organizations (*Keidanren*) lamented, "Out of all the various cost-cutting measures available to management, benefit costs, including the premiums for the social security and the national health care, are the one aspect out of the company's control."⁶ Indeed, an annual survey compiled by the Keidanren (2001) showed that from 1970 to 1995, mandated benefit costs had grown from 5.8 percent of cash compensation to 11.6 percent, while non-mandatory benefits had held steady at the five percent level during this same period. Japanese corporate actors pressured Tokyo and lobbied the politicians for a way out.

During this period, Japanese companies were struggling to make themselves more competitive in an increasingly global economy. Traditional Employer Pension Funds (EPFs) suffered from poor financial conditions in the deteriorating investment environment following the collapse of the bubble economy. As Figure 4 illustrates, the number of terminated EPFs rose steadily from 1995, and the failure rate became noticeably higher in 1999. Fuji Film was one company choosing dissolution. Fuji's Vice President Imai described how a rapidly changing operating environment led his company to contemplate this plan of action (Nikkei Business 2003). Falling discount rates amplified the level of underfunding and liabilities linked to the Company's pension benefit obligations (PBOs), and this subsequently increased amortization expense related to underfunding. Needing to focus on its core business and eliminate risk in its non-core business, Fuji identified its pension plan as a prime target for cuts.

Figure 4 here

Pension dissolution in Japan is seen as a harsh measure with major consequence for employees. However, as Fuji's Imai explained, the short-term impact of pension-related expense would eventually flow out of employees' wages as increased total compensation cost (ibid). The decision toward termination might be considered a sign of unavoidable change in Japan. Others may conclude that it revealed a growing desperation among Japanese management teams to relinquish a defined benefit promise to their employees. The next section takes up this issue by looking at the role of paternalism in DC non-proliferation.

DC Non-Proliferation

The lukewarm response to DC plans in Japan has suggested to some Western observers that Japanese companies are somehow "different" and subject to much stronger paternalistic motives

than their Western counterparts. For instance Cerulli (2003:44) remarked, “In a country that reveres ancestors, few look forward to telling their employees that they will have to provide for their own retirement, which has made defined contribution plans unpopular if necessary.” That study also concluded that “DC plans remain the biggest mirage in the Japanese asset management industry.”

Until 1996, accumulated assets of EPFs were evaluated at book or historical values. In the presence of low returns, current market values were not reflected on the balance sheet and only latent losses accumulated, which failed to call adequate attention to asset management performance. The Employees’ Pension Fund Association (PFA) reported positive returns until fiscal year 2000 when its returns turned negative at -10 percent for the year, followed by -4.1 percent in fiscal 2001, and further deteriorating to -12 percent in fiscal 2002 (Nikkei Business 2003).

Daiko Henjo (Government Putback). As of early 2004, 728 EPFs, or 42 percent of the total EPF universe received approval from the MoHLW to return, or “put back”, the state portion of their pension funds to the government (Nikko Financial Intelligence, 2004). In this putback process (i.e., *daiko henjo*), EPFs return to the government assets equivalent to the minimum liability reserve, accumulated from pension contributions and any investment gains that were retained by the company in lieu of paying the state. For many companies, the assets corresponding to the *daiko henjo*-related PBOs exceed the actual assets they are required to turn in, which creates a one-time gain. The longer-lasting gain, though, is in the permanent removal of the underlying risk and liability, and the ability to decrease future company obligations. Furthermore, since the put-back does not *curtail* employees’ benefits, companies can complete this transfer without encountering resistance from employees.

As Daiwa's Kashiwazaki (2003) wrote, "Broadly speaking, there is no reason for companies not to carry out *daiko henjo*, and for many large companies with large pension benefit obligations in particular, it seems rational to return assets [to the government] immediately." Kashiwazaki (ibid) estimated that the value of assets to be returned to the state would ultimately reach over 15 trillion yen. The corresponding number of funds would be in the neighborhood of 800 to 950 EPFs. For a Japanese company, the government-related portion typically comprises 30 to 50 percent of total PBOs. The ability to reduce this extent of the pension-related liabilities translates into a huge win for the company, especially as new accounting standards force companies to move PBOs onto their balance sheets.

Olympus began its *daiko henjo* in the fall of 2003. Thanks to this measure, the Company decreased its PBO level by 21 billion yen and posted a one-time profit of four billion yen (Nikkei Business 2003). According to Morgan Stanley's Japanese Equity Strategist, Naoki Kamiyama (2003), this strategy was a "no-brainer" for most large companies since their EPFs were either single-sponsor (*tandoku-gata*) or group (*rengo-gata*), that is, consisting of related companies only. For smaller companies organized into an industry EPF (*sogo-gata*), *daiko henjo* might be more difficult to implement since it would require coordination and cooperation with the other participating companies. In addition, the *sogo* EPFs typically do not offer benefits much above the government portion, so *daiko henjo* would more than likely mean dissolution of the company's entire pension plan.

The reaction of Japanese companies to *daiko henjo* provides further evidence that paternalism was not driving pension reform. As EPF dissolution and pension benefit reduction continue, Japanese companies have not been resisting corporate pension reform, but in fact driving

it. The next section reveals how the unique form of DC plans in Japan became the primary stumbling block for companies.

Structural Flaws. Under Japan's DC law, the maximum annual DC contribution limit is ¥432,000 (approximately \$4,000) per employee for companies that lack alternative pension systems, and ¥216,000 (approximately \$2,000)⁷ for those that have them. The DC legislation restricts early withdrawals from employees before they reach the age of 60, prohibits employee contributions, and may re-impose a capital gains tax of around one percent on contributions⁸. In contrast, the U.S. 401(k) defined-contribution system is based on employee contributions that can be matched by the employer, and it permits a generous maximum annual contribution limit of \$12,000 per person (2003) that will be raised incrementally to \$15,000 over the next several years.

When asked if contribution limits matter, IBM's Tsubota responded: "Absolutely. If allowed, we would seek to further reduce the volatility of the right-hand side of our balance sheet by converting more of our current pension into a DC plan."⁹ While IBM struggled to revise its pension system while awaiting the final version of the law, Skylark (a Japanese company that operates family restaurants) sought to make DC central to its pension system *no matter what* the legal contribution limits turned out to be. Post-legislation, most (roughly 88 percent) of Skylark's DC plan exceeded the 216,000 yen contribution limits (Imafuku 2002). The excess benefit then became characterized as "prepaid" cash and is disqualified from any tax advantages. The approach taken by Skylark, however, diverges from pension systems at most companies, which have designed their systems to stay below the tax contribution ceilings.

Union Threat: Fact or fiction? Several countries in Western Europe, including Italy, France, and Germany, have proposed or implemented cutbacks to their state pension programs in recent years. For these countries, pension reform is one of the most explosive domestic issues, and citizen unrest results from the prospect of “diminished entitlements” (Bruni 2003). In Italy, union-led strikes have paralyzed the nation after a proposal to raise the country’s retirement age. In France, the government’s campaign to push through pension reform set off a series of strikes, which disrupted schools and hospitals, halted newspaper and mail delivery, and temporarily shut down the nation’s transit system (Sciolino 2003).

Observers wonder why Japanese unions (and indeed, Japanese citizens) have not been more vocal in the face of pension reform. Indeed, large Japanese firms have long been viewed as providers of social welfare benefits, similar to their counterparts in Europe. Although cooperation rather than contention has characterized postwar labor-management relations in Japan historically, union opposition toward DC legislation allegedly prompted the government to impose low contribution limits. Japan’s largest union group, *Rengo* (the Japanese Trade Union Confederation) argued its concern and cited the possibility of union strife as an impediment to DC proliferation (NPO Institute 2003). Despite this, few stories emerged of union uprisings in Japan, even at times of significant change in both public and private pension schemes.

An explanation may be found in the contribution limits themselves. Due to the scanty size of permitted tax-exempt contributions, few companies have converted their entire pension plan into a DC one. Those who have, were predominantly small-to-medium-sized enterprises (SMEs) and companies without pre-existing plans.

IBM Japan, as a predominantly non-union company, was required to gain approval from two-thirds of its tens of thousands of employees to affect pension change. Thanks to effective HR

communication, IBM Japan successfully built consensus and received an overwhelming 90 percent support from its employees (Tsubota 2003). One might argue that the low limits of the DC legislation actually helped IBM Japan gain support for its new pension plan. Had the DC legislation allowed 100 percent conversion of IBM's preexisting plan, would its employees have signed on? Of course, no one knows the answer to this, but in some ways, the low level of the DC limits may have helped large companies structure a two- or three-tier system (combining DC and DB features) without encountering resistance from unions or employees.

HR Reform in Recessionary Japan

After the bubble burst in 1990, Japanese employers reviewed and revised their compensation systems to cope with the prolonged recession and remain competitive in foreign markets. Over time, the institution of seniority pay gave way to a new wage structure demanding "pay for performance". Many Japanese companies also began introducing a pay-for-performance component to their traditional severance pay or DB pension plans through a "point system" that tied pension benefit levels to evaluations of employees' performance.

Prior to its pension plan reform, IBM Japan had moved to a merit-based wage system. So reform this time dealt exclusively with pension benefits (Tsubota 2003). While its preliminary pension plan reform was a collaborative effort with IBM Headquarters, practical and later-stage decisions were made in Tokyo. Partially, this is attributable to the unique aspect of dealing with the Japanese government and the uncertainty of the ultimate pension reform legislature. Since Japan's pension plan offerings differ from those in the U.S. and other countries, Tsubota (2003) described how, as an "early adopter" of these plans, IBM Japan had to move slowly to compensate for the ambiguity associated with the timing and eventual form of the legislature. From his point

of view, many Japanese companies continue to take a wait-and-see approach. In IBM's context, pension reform represented the final step of a transition from a lifetime employment concept to pay-for-performance. As Tsubota noted in 2003: "Corporate pensions represent just one part of an overall HR Strategy."

Like IBM, Hitachi took measures prior to the implementation of a DC plan to convert its compensation scheme to a merit-based one. In fiscal 2000, the Company applied a point system to calculate its employees' retirement allowances and pension benefits (Maruta 2003). The points granted to each employee reflected that employee's individual contribution and performance. In this sense, the introduction of a DC plan was the final step in that initiative. However, Hitachi also saw the "signaling" benefit of a DC plan in attracting, developing, and rewarding employees who showed self-initiative and an active interest in planning for their post-retirement lives. Hitachi also noted the social value of encouraging its employees to take a more active role in achieving their post-retirement goals and financial objectives. Hitachi's DC plan replaced one-half of its pre-existing lump-sum retirement allowance or 20 percent of the Company's total pension scheme. Hitachi's Hiroshi Maruta (2003) was quick to point out that, like Tsubota of IBM, he would have opted for greater contributions had the government granted higher tax-advantaged contribution ceilings.

For Japanese companies like IBM and Hitachi, taking the DC plunge was not a decision made in isolation. Rather it was the result of a series of decisions driven by the need to update the company's entire compensation and employee evaluation system. If the lump-sum severance pay plan served as the 'cornerstone of the lifetime employment system', then these new point systems represent a first phase of DC plan introduction in Japan (Fujiwara 2002).

Since Japanese companies appeared responding to the constraints imposed by the DC pension law, a logical question is then: how did the current law come into existence and why? Specifically, how did entrenched interest groups and other opponents of structural reforms influence the political game, and under what conditions did they – or could they – control the legislative process? The next section analyzes the inherent tension between the pressures *for* change induced by corporate actors and global trends, and the resistance *to* change (i.e., policy or institutional stickiness).

Toward Stronger DC Legislation in Japan

“[The LDP, the bureaucracy, and the zaikai] may display surprising power at times and unexpected weakness at others... The essential fact is that none of them can be perceived as forming the apex of the Japanese power authority.”
Karel van Wolferen (1989: 548)

As McCubbins and Noble (1995) explain, “Proposals, particularly new initiatives, must pass through a whole series of veto gates, all of which are controlled by the LDP, so bureaucrats have a strong incentive to tailor their proposals to appeal to the LDP” (530). Japanese corporations, the broad circle of top business functionaries called the *zaikai*, and especially those who speak through the Japanese Business Federations such as the Keidanren and the Japan Federation of Employers' Associations (*Nikkeiren*),¹⁰ while not having a formal veto over policy processes, could impose political costs on elected officials that ignore their preferences. Figure 5 portrays the emergence of veto players on this piece of legislation.

Figure 5 here

With the DC legislation, two sets of actors appeared to independently initiate the discussion: Prime Minister Ryutaro Hashimoto, and Japanese corporations. Sources within the Ministry of Finance (MoF), the MoHLW,¹¹ and the Keidanren, concur that the Hashimoto cabinet

became interested in DC legislation primarily as a way to prop up the stock market. Former Chairman Kato of the Government Tax Investigative Committee wrote how the introduction of DC plans became one way to quickly push forth a policy that moved away from the indirect financing slant of a saving promotion policy and towards one that sought capital investment in the stock market (Life Design Research Institute 2002). With a rise in stock prices, Japan's non-performing loan (NPL) problem could be lessened, helping banks unwind their cross-shareholdings and write off their substandard assets. Meanwhile, Japanese corporations were seeking relief from a prolonged recession and a dismal investment environment where pension underfunding realities would soon be exposed by new accounting standards.

Conceiving Defined Contribution Plans. In March 1997, discussion and debate over corporate pension reform began within the ruling political party, the Liberal Democratic Party (LDP). The LDP dominated the political scene in Japan since the end of WWII with an uninterrupted majority from 1955 to 1993. After 1993, the LDP regained its power the following year, and some observers contend that it has been politics as usual in Japan ever since, stressing the continuity in Japanese politics and arguing that recent political and economic reforms represent gradual rather than fundamental change.¹² Others believe that the loss of single-party rule in 1993 and the emergence of large-scale policy failures and scandals in the bureaucracy during the 1990s changed the political balance. Toya (forthcoming) argues:

The gradualism widely observed until the mid-1990s does not hold in the case of the Big Bang. These financial reforms are wider in scope and deeper in degree than past financial reforms. ... it did not evolve from the same informal bargaining process among actors that has long characterized public policy making in postwar Japan (2).

What Toya called 'informal bargaining process,' others may call the 'old style' of Japanese politics, and it is what Aoki (1988) coined as 'bureaupluralism'. Under bureaupluralism, public policies are

produced from a consensus-making process organized by the bureaucracy but involving the regulated industries and affiliated LDP politicians (known as *zoku giin* or “tribesmen”).

Bureaupluralism centers on such policy-making bodies as the deliberative councils in the government and the LDP’s Policy Area Research Councils (PARC). Toya argued that the political process that produced the Big Bang largely circumvented these bodies. The Big Bang initiative first came to be known publicly when Prime Minister Hashimoto, taking many by surprise, announced the initiative two weeks after the LDP victory in the Lower House elections of October 1996. DC legislation was also part of Prime Minister Hashimoto’s grandiose vision, but, while receiving “Big Bang” attention from the same administration, went on to experience a lesser fate and delayed policy outcome.

Since the proposed reform interfered with the jurisdiction of more than one ministry, each of the related ministries – the Ministry of Health and Welfare (MoHW), the Ministry of Finance (MoF), the Ministry of International Trade and Industry (MITI), and the Ministry of Labor (MoL) – proceeded to form independent committees that March. Tsubono writes how, from the “birth” of the corporate pension system in the 1960s, disparate oversight and regulatory control doomed the system. Until 2001, companies were free to choose between TQPPs or EPFs, provided certain requirements (which varied by plan type) were met. Oversight of the two types of plans, however, fell under different jurisdictions with the MoF controlling TQPPs and the MoHW regulating EPFs. The difference in jurisdictions transcended into a fundamentally different way of thinking about these plans and resulted in systemic discrepancies concerning investment management rules and other requirements. In particular, Tsubono (2002) pointed out that TQPPs, with their externally accumulated assets, left employees with inadequate protection rights. Economic growth veiled

these flaws so when the country hit a recession decades later, the imperfections of the system were revealed; making apparent the need for more comprehensive *systemic* reform.

Impure Origins. Fujiwara (2003) attributed the movement toward DC law as the government's desire to bail out the ailing securities firms. Since the DC legislation would enable financial institutions to diversify their businesses, it would provide Japanese securities houses with much needed relief from non-performing loans (NPLs) and increased competition in post-Big Bang Japan.

Many scholars have pointed to the financial industry as a key driver in Japanese politics. Amyx (2004) painted a slightly darker picture to explain why the stock market was so important for politicians, describing how insider trading and campaign finance distorted political preferences toward higher stock prices. "Weaker" financial institutions, in particular, the securities firms and the long-term credit and trust banks, successfully prevented past attempts by the MoF to launch financial reforms (e.g. the 1979–82 banking reforms and the 1991–93 financial reforms) (Toya forthcoming). In recent years, the NPL problem has become so central to Japan's economic paralysis that its overriding concern becomes understandable.

Tak Wakasugi (2003) of the Government Pension Investment Fund (GPIF) recalled that DC plans in Japan did not arise from a typical discussion of post-retirement security or the need to protect beneficiaries, as might have been expected based on the precedent set in other countries. Rather, the idea arose as an issue linked to the recovery of the Japanese stock market. Just as stock prices hovered at all-time lows in Japan during the mid-to-late 1990s, across the Pacific in the U.S., the stock market was seen booming. In the course of ongoing talks between the U.S. and Japan during this timeframe, the introduction of 401(k) plans in Japan surfaced as a potential remedy (Wakasugi 2003). The U.S. economy and stock market appeared to have been bolstered by the

growth of DC plans. From Wakasugi's perspective, the goal of stock market bolstering created a tragic flaw for the eventual form of DC legislation in Japan since it overlooked the painstaking detail required to enact such legislation. Here, we observe how a variant of *gaiatsu* was framed under the guise of legitimate policy reform to achieve underlying political objectives. The U.S.-Japan talks served as an opportunity for DC pension legislation in the face of insufficient policy momentum. Absent intrinsic momentum on its own merits, DC legislation needed an alternative stimulus to coordinate and drive the reform process.

Money Politics. While normally considered a politically influential body, the *zaikai* made repeated pleas for the speedy introduction of DC plans, but these seemed to fall on deaf ears within the government. This coincided with the Keidanren's decision to discontinue political donations after a wave of bureaucratic scandals in 1994, and this appeared to have undermined the DC lobby's political influence. Indeed, at the time of the merger between the Keidanren and the Nikkeiren in May 2002, Chairman Okuda freely voiced concern over what he saw as a weakened say by the Japanese Business Federations in key policy issues such as taxation and the social welfare system (Kyodo 2002). By the end of 2002, the Keidanren announced a reinstated policy of political donations.

Cabinet Disruptions. The sudden death of Prime Minister Obuchi eroded the momentum in the DC legislation (Urata 2001). In what appeared to be backroom factional deal-making, the majority LDP appointed Yoshiro Mori as LDP president, which helped ensure his selection as the next Prime Minister. Mori, a veteran of the LDP, but better known for his political deal-cutting than policy-making skills, ascended to his new post only to face repeated bouts of controversy and public disapproval.

Prime Minister Obuchi's death led to the dissolution of the Diet before the DC bill could be discussed. Perhaps without this unfortunate turn of events, the bill would have made it into law that year. Prime Minister Mori did seek to maintain policy consistency by reappointing the entire Obuchi cabinet. When the DC bill was re-submitted in the fall of 2000 during the extraordinary session of the Diet, it again died allegedly because of the "shortage of discussion time" (Urata 2001). Yet, ultimately, when the bill was presented in June 2001, it passed both houses after eight days of deliberation. Four years were reduced to a mere eight days.

LDP-Rengo Relations. Perhaps a better explanation can be found in the behind-the-scenes cleavage between the LDP and Rengo. In 2000, Labor Minister Takamori made an historic move by missing Rengo's May Day rally (which Labor Ministers had attended since 1984), signaling ill will between the government and the country's largest union group (Kyodo 2000). After Rengo diverted the passage of the DC bill during the extraordinary Diet session in late 1999, the government called off regular meetings between the prime minister and Rengo officials, and the LDP refused to send its officials to Rengo-sponsored events.

The strained relations between the LDP and Rengo can be traced back to 1998 when Rengo announced its support for the integration of opposition parties into the Democratic Party of Japan (DPJ) (Kyodo 2001, November). Following the resignation of Prime Minister Hashimoto, Rengo

President Washio urged opposition parties to join the DPJ to build a non-LDP, anticommunist political force (Kyodo 1998). Mori's administration followed the lead of its predecessor, Prime Minister Obuchi, and refused to heed policy demands from Rengo due to the organization's support for the main opposition party, the DPJ (Kyodo 2001, March).

Koizumi signaled a change of relations between the two groups when he attended Rengo's May Day rally on April 28, 2001, becoming the first prime minister to do so since Hashimoto in 1996 (Kyodo 2001, May). On June 12, 2001, members of Koizumi's cabinet and leaders of labor and business sectors gathered to exchange views prior to the planned issuance of Koizumi's so-called "big-boned" reform blueprint later that month (Kyodo 2001, June). June 12, 2001 was also the fortuitous day when the DC bill passed the Lower House. Coincidentally, the meeting that occurred that day was one that had been suspended since November 1999, the last time the DC bill had been presented to the Diet.

While the importance of labor's sign-on may not have been all "smoke and mirrors", the underlying tones were unmistakably political. Once again, pure substantive concerns were set on the back burner.

MOF vs. MOHW: the Great Saving Debate. One central argument in the pension debate concerned the categorization of DC plans. MoF officials contended that these plans were merely another form of saving, while MoHW officials fought for tax favorable treatment on par with other pension schemes. To win its battle, the MoHW allegedly had to settle for the so-called "flaws" of the eventual DC system, such as low contribution limits, no early withdrawal, and no employee contributions (NPO Institute 2003). Subsequently, pension reform in 2001 and 2002 streamlined the country's existing corporate pension system all under the control of the MoHLW. Figure 6 shows a comparison of the before and after pictures of the two systems.

Figure 6 here

“System” Fixation within the MoF. The MoF has long viewed the issue of corporate pensions as just one part of the larger Japanese pension system, incorporating all private and public schemes. A widely-held objective for the MoF has been the overall integration of corporate pensions within this structure and the consistency of corporate pensions vis-à-vis the public and other private pension (self-employed, government officials, etc.) components.

Wakasugi (2003) argued that the government (and particularly the MoF) never fully appreciated the different ‘motivations’ for the three types of pensions (individual, corporate, and public). In contrast to the individual’s primary objective of saving for retirement, Wakasugi (ibid.) pointed out that corporations must focus on turning a profit and retaining good employees through the provision of tax-advantaged benefits. Public pension plans differ since the public benefit comprises a welfare payment that ensures a minimum standard of living and a social safety net. One fundamental challenge in the public pension debate has been to improve premium collections, which requires not only restoring confidence in the long-term viability of the system, but also educating citizens of the necessity of this social provision – instilling what Wakasugi calls a “this could happen to anyone” mentality.

Honne (real intention) vs. Tatemae (official stance)

The official reasons for passing DC legislation were stated as: (i) greater labor mobility (whereby pension “portability” would be a necessary precursor); and (ii) the shifting of investment risk burden from companies to employees (justified by deteriorating financial conditions of Japanese companies brought on by a prolonged structural recession). However, according to Koji Yano of the MoF, both rationales contain flaws: greater labor mobility could not be achieved by simply introducing DC legislation, since the income-related portion of the public pension was not

yet transferable from EPFs; and the shifting of investment risk to employees was complicated by labor negotiations and the perception that DC plans would be rejected by unions (2003). Instead, Yano (2003) claimed the legislation grew out of a fear over the longevity crisis of the “worker's property accumulation savings for pension” (or so-called nest-egg pension savings system) and, what he considered, a blind deference to the “U.S. are doing it, too” mentality.

Under the long, protracted recession in Japan, corporate pension reform became a harsh economic reality. Even the most financially stable and paternalistic companies have implemented DC plans. Toyota is one example. Perhaps paternalism is not *in*-consistent with DC plan adoption, but it is in fact consistent with it. Cerulli (2003) pointed to underfunding estimates approaching ¥12 trillion and predicted that “almost every Japanese EBP will report some form of funding crisis” (27). According to a 2003 listing of the Japanese companies with the most severe underfunding levels, the top (i.e., worst) company, Kanebo, held off-book underfunding at 190.03 times shareholder's equity (Nikkei Business 2003). In this light, DC plans provide a way to mitigate pension risks and maintain plan viability. Keeping old, “sick” DB plans threaten the overall viability of firms, and these stand to hurt Japanese employees *more* than a transition to a DC plan would.

The preceding analysis of the developments surrounding the ratification of DC legislation revealed how political instability and policy uncertainty constrained the legislation, which in turn shaped the behavior and decision-making process at Japanese companies with respect to their corporate pensions. With the number of ministries drawn into the pension debate and the complexities surrounding the issue itself, ideological points were diffuse and this made coordination and consensus-forming difficult.

The presence of numerous and heterogeneous participants drove the legislative process outside the traditional policy path in the case of the DC pension legislation. By appealing on the basis of the stock market in 1997, Prime Minister Hashimoto and the LDP managed to find a way to get DC pensions onto the political agenda. Although the issue's underlying complexity undoubtedly played a role in the absolute length of time required to hammer out the legislation and make necessary systemic reforms, the abrupt change in momentum in 2001 after Prime Minister Koizumi visited Rengo's May Day Rally reveals how political factors still reign supreme in this process. Indeed, from the initial framing of DC pension legislation by Prime Minister Hashimoto in 1997 to the behind-the-scenes smoothing of relations by Prime Minister Koizumi in 2001, the importance of strong political leadership is noted in Japan. It appears to be prerequisite to coordinate and carry out tough policy initiatives in the face of disparate agenda among ministries.

Implications for the Future

Perhaps the greatest challenge posed by the nationalistic nature of policy-making is that policy-makers often misunderstand the nature of the policy frameworks of other countries. This lack of understanding leads them to misinterpret the rationale of other countries' policies and incorrectly assess their outcomes. *Kenneth Pechter (2002)*

Over the last few decades, the world's leaders have learned that no nation is immune to fiscal deficits, banking problems, and financial crises. Learning through the experiences of other countries has been valuable for policymakers in developing an understanding about other approaches, without having to implement them first for themselves. Indeed, a set of "best practices" seems to have emerged to deal with every national "malaise" conceivable. However, Pechter (2002) warns that policy-making should not be confused with management since: "... while

business activities transcend borders, ...policies are by nature directed at regions defined by borders”.

Furthermore, each country’s unique circumstances dictate different policy responses. Yano (2003) pointed to the different circumstances surrounding the introduction of DC legislation in Japan compared to those in the U.S. In the U.S., 401(k) legislation provided a mechanism to stimulate savings. Yano (2003) recalled that, ironically, this was approximately the time when American researchers were in Japan studying the Japanese postal system to uncover the Japanese saving success. Pechter (2002) echoed this sentiment when he wrote:

It was, however, not too long ago that Americans were looking to Japan for answers. It was believed that the particular nature of the Japanese economic system gave advantages to Japanese firms, and perhaps American policy-makers needed to adjust American policies accordingly in order to reap similar benefits.

Many observers, including former Prime Minister Hashimoto, garnered hope from the U.S. example and the spectacular growth of DC plans. However, even in the U.S., it took nearly two decades before the total dollars in DC plans exceeded the amount in DB plans. In contrast, DC legislation in Japan occurred at a time when the nation’s savings rate was being criticized abroad for being too high and its imports too low. The Japanese government was at a point of trying to initiate *consumption*-led economic recovery.

A Cash Balance Solution? Introduced in Japan's 2002 pension reform bill, Cash Balance (CB) plans combine features of traditional defined benefit and defined contribution schemes, and many Japanese corporate executives have expressed interest in these systems (Cerulli 2001, June). So-called hybrid schemes have been controversial since their inception in the U.S. However, in Japan, CB plans exemplify a compromise typical of Japan labor relations historically since the risks inherent are shared by the employee and employer. The "palatability" of this type of plan is in its bringing together features of the DC and DB models. For managers, there is the built-in adjustment of interest rates to correspond to the current interest environment. For employees, the flexibility and design aspects create portable benefits while guaranteeing a certain level of benefits regardless of investment return. Furthermore, the investment decision is deferred to management, which sits well with many Japanese employees who have never owned a share of stock. The reduced burden and overall volatility on the corporate balance sheet as well as an enhanced sense of fairness and equity for employees creates a compromise that resounds well among employees and managers alike.

In a communiqué to employees regarding its October 2003 introduction of a CB plan, Hitachi presented its rationale as two-fold.¹³ First, the Company described how its pension fund had suffered from three consecutive years of losses as a result of the low-interest environment and depressed stock market in Japan. Second, Hitachi cited the pronounced impact of the pension plan on management ever since the issuance of new accounting standards in Japan. Hitachi's overriding goal was said to be the creation of a sustainable and safe pension system. Hitachi illustrated how the CB system was a true "win-win" for employees and the Company: since the CB plan automatically adjusts to the current interest rate environment (every year according to a predetermined benchmark¹⁴), it provided Hitachi with flexibility in terms of asset management and

macroeconomic fluctuations. Mitigating interest and stock market movements would benefit both parties since the reduced risk and volatility would enable management to concentrate on its core business and ensure tomorrow's workplace for employees. Employees would benefit from the individual "virtual" accounts of the CB system, which offer similar incentives and appearances as DC individual accounts, but with the extra protection built into the CB structure. The downside to employees is mitigated since the CB plan would guarantee a range of returns corresponding to the current investing environment.

The current U.S. controversy surrounding CB plans should not threaten the continued interest in and the proliferation of these plans in Japan. As Kenji Sekine of Towers Perrin remarked, "cash balance plans were built differently in Japan and are not subject to the same conversion ambiguity as they were in the U.S."¹⁵ Olivia Mitchell from the Wharton School noted:

The main reason that CB plans are in the hot seat (in the US) is that a judge has deemed them in violation of the age discrimination act. Some of the CB plans appear to accrue benefits at a lower rate for older workers than for younger workers. Whether this will raise a ruckus in Japan seems unlikely to me since there, mandatory retirement is legal, and the government doesn't seem too concerned about age discrimination.¹⁶

Cash balance plans appear to be a good "fit" for Japanese companies, combining the best features of defined contribution and defined benefit plans, and also suiting Japanese union-management relations. Further reform and rule clarification in these plans as plans proliferate is likely to continue.

Conclusions

Japan's DC pension legislation clearly disappointed many corporate actors. Their subsequent hesitance in adopting DC plans did not reflect paternalism, but the fact that they faced an unsatisfactory option. Their criticism of the current structure seems to have reached the

MoHLW, where recent lobbying efforts have called for increased contribution limits (Nikkei Shimbun 2003). The LDP is apt to comply since the party's tax commission is looking for ways to offset a proposed reduction in public pension benefits. One solution lies in more expansive corporate pensions made attractive through an increase in the upper limit on nontaxable contributions.

In the run-up to the general election on November 9, 2003, major political parties cited public pension reform as a top campaign promise in their "manifesto" agenda. This represented a significant divergence from elections past when pension issues were considered taboo for political debate before an election due to their unpalatable nature among older constituents. Opposition forces within the DPJ have put the LDP on the defensive. Nevertheless, the challenge to the leadership of Japan is undeniable due to the controversial nature of the reforms and the following irony, as noted by Tiberghien (2002):

The significance of these structural reforms is considerable because they aim at undoing the very features of the Japanese political economy that were once recognized as the foundations of the three-decade long economic miracle. These features include keiretsu links between manufacturers and suppliers, cross-shareholding ties, the lifetime employment system, the main bank system, and a quasi state-guarantee against bankruptcy (Chapter 5: 4).

On the one hand, it appears that pension issues are now reaching a higher level of debate in Japan before being vetoed (rather than failing to pass through the hoops at lower stages). On the other hand, a simple change in the arrangement of actors will not alone solve the problem of policy coordination in Japan; also at issue is the ongoing and vigorous debate about what the best route for Japan might be in the pension arena. So while the flux of the political climate provides some optimism for more positive change, continuing uncertainty over policy direction is likely to impede the introduction of necessary changes in legislation. Pension reform is a complex issue and in Japan in particular, driven by a changing power dynamic in the policy sector. Understanding of

these nuances may alert international observers as to which actors bear watching, to predict when real and meaningful change will emerge.

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Figure 1. Structure of the Japanese Pension System¹⁷

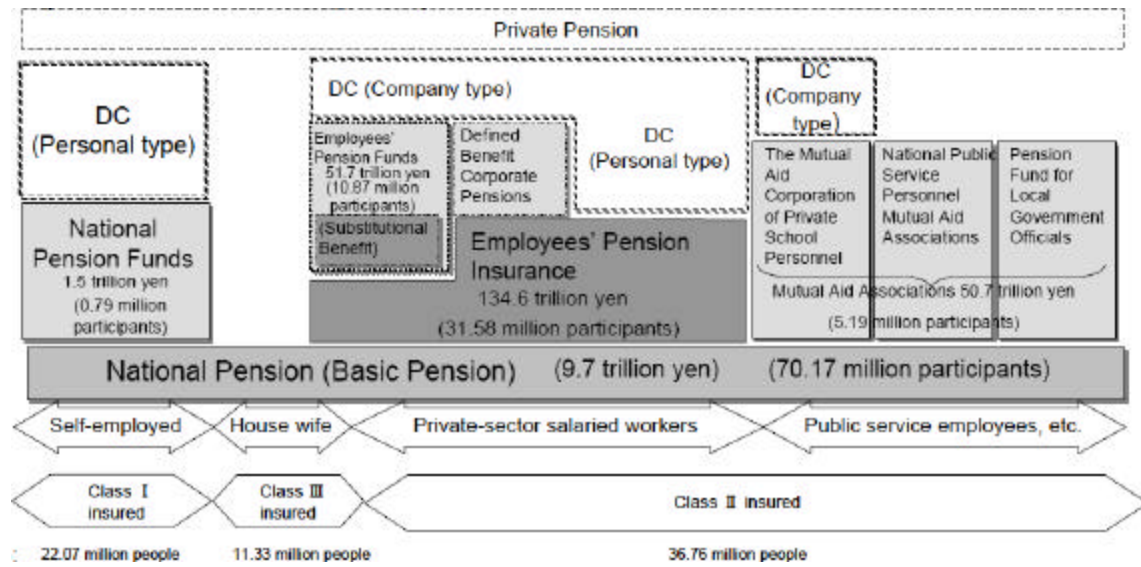


Figure 2. International Comparison of Household Saving Rates¹⁸

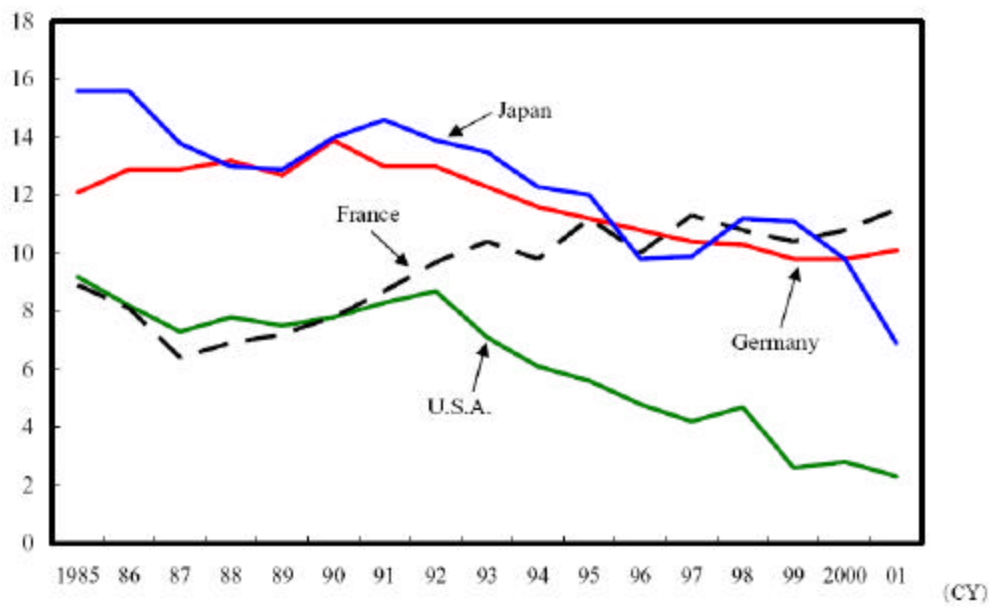


Figure 3. Household and Saving Trends among Japanese Elderly¹⁹

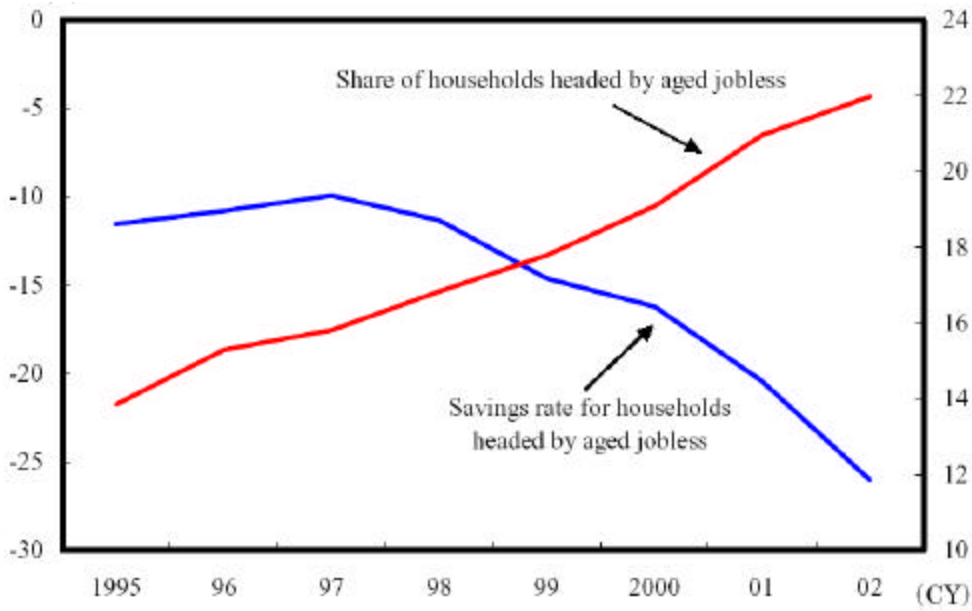


Figure 4. Number of Terminated EPFs²⁰²¹

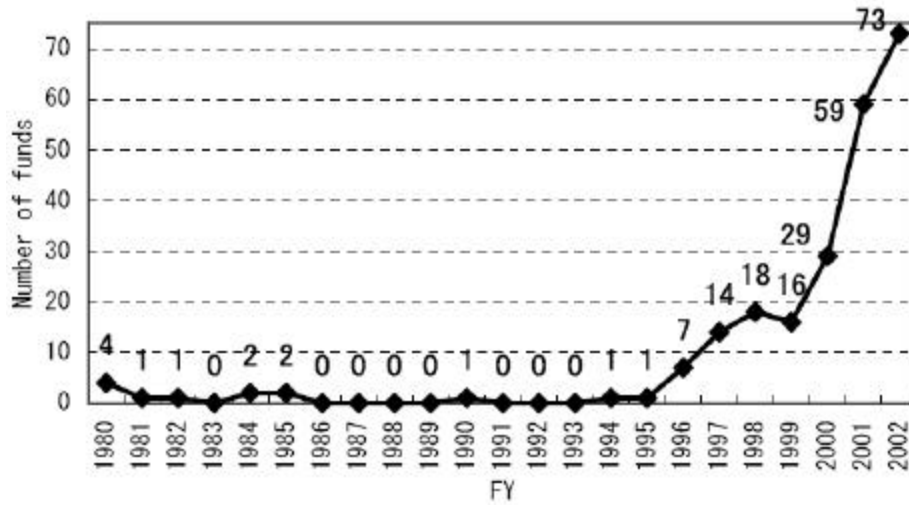


Figure 5. Veto Players

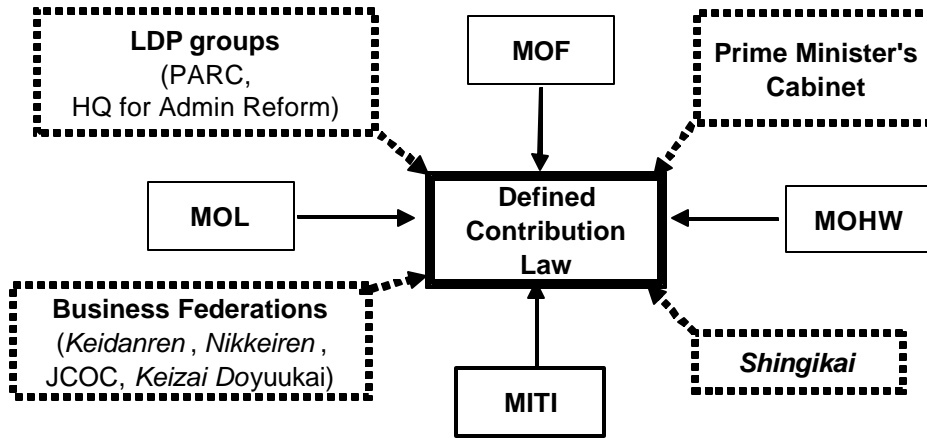
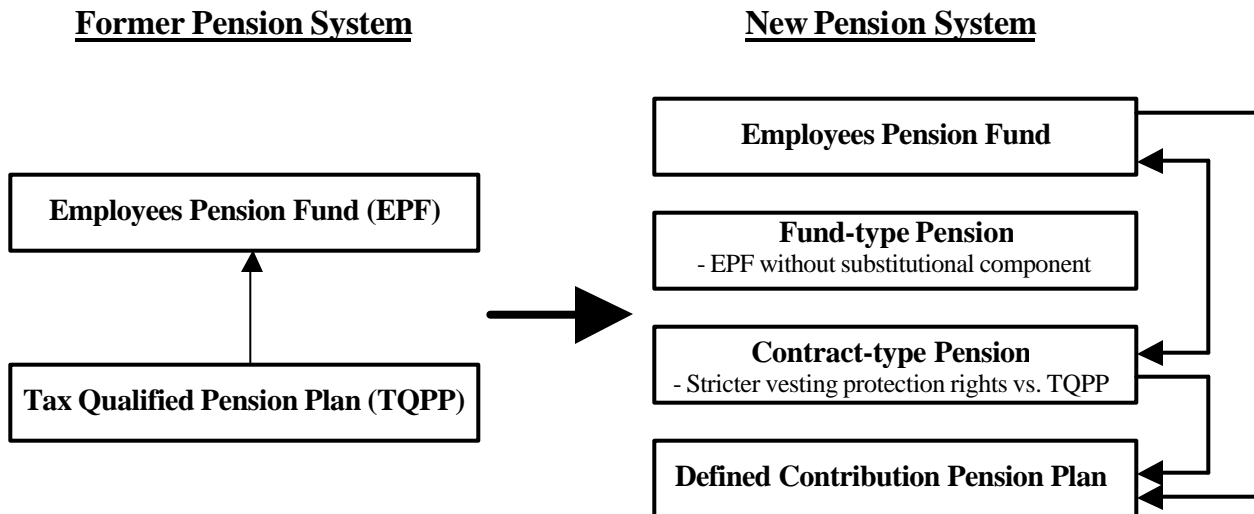


Figure 6. Pension System Revision

Source: Urata, Haruka (2001)



Endnotes

- ¹ This figure includes both Employees Pension Funds (EPFs) and Tax-Qualified Pension Plans (TQPPs).
- ² The U.S. is ranked 28th and 30th for males and females, respectively.
- ³ Note: the exchange rate was approximately \$1 = ¥112 in September 2003.
- ⁴ Formerly the Ministry of Health and Welfare.
- ⁵ The 5-3-3-2 regulation stipulated the investment allocation of pension plans as follows: 50% or more in a principal-guaranteed asset, 30% or less in domestic stocks, 30% or less asset in foreign currency, and 20% or less in fixed property.
- ⁶ Based on personal discussions at Keidanren, August 12-13, 2003.
- ⁷ U.S. Dollar figures assume an exchange rate of approximately \$1 = ¥106.
- ⁸ A special corporate tax of 1.173% is assessed on asset balances, but the Government has suspended this tax since 1998, rolling it back every two years. Currently, it is suspended until fiscal 2005.
- ⁹ Based on personal interview, July 2, 2003.
- ¹⁰ In May 2002, the *Keidanren* (Japan Federation of Economic Organizations) and *Nikkeiren* (Japan Federation of Employers' Associations) combined to form the *Nippon Keidanren* (Japan Business Federation).
- ¹¹ In 2001, the Health and Welfare Ministry (MoHW) and the Labor Ministry (MoL) were combined into the Health, Labor, and Welfare Ministry (MoHLW).
- ¹² For example, see Curtis (2002) and Vogel (1994).
- ¹³ June 13, 2003 (courtesy of Hiroshi Maruta).
- ¹⁴ Hitachi uses the 10-year Japanese Government Bond (JGB) as its benchmark.
- ¹⁵ Based on personal discussions, August 4, 2003.

¹⁶ Based on personal discussions, August 9, 2003.

¹⁷ The number of participants and reserves are measured as of March 2002; taken from MoHLW and drawn by Institute of Pension Research, Nikko Financial Intelligence, Inc.

¹⁸ From “No Gains without Reforms III,” *Annual Report on the Japanese Economy and Public Finance*. Cabinet Office, Government of Japan, October 2003.

¹⁹ From “No Gains without Reforms III,” *Annual Report on the Japanese Economy and Public Finance*. Cabinet Office, Government of Japan, October 2003. Note: Elderly is characterized as over 60 years old.

²⁰ The 2002 figure is as of October 24, 2002, taken from Institute of Pension Research, Nikko Financial Intelligence, Inc./Pension Fund Association’s *Annual Report on of Employees’ Pension Funds*.