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PLANNING FOR RETIREMENT IN THE 21ST CENTURY: BACKGROUND FOR JAPAN

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Current Old-age Income Security

A Historical Miracle

(1.0 Million Yen = USD 9,400)

<i>Elderly Couples (Age 60+)</i>	Mean	Median
Annual Income	5.3	4.2
Net Financial Assets	20.2	11.7
Net Housing Assets	64.9	27.3
SS Wealth	65.5	47.9

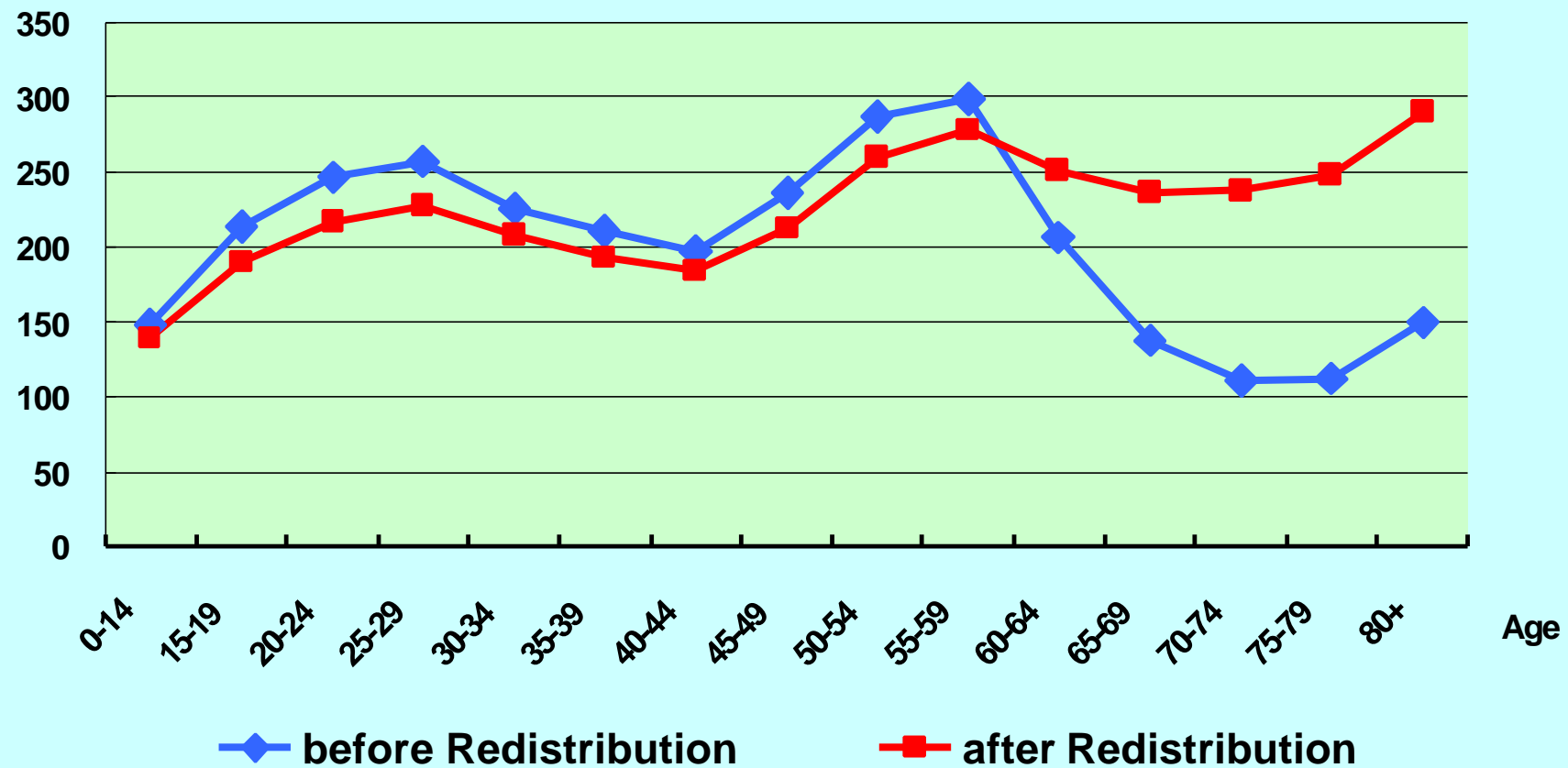
<i>Elderly Singles (Age 60+)</i>	Mean	Median
Annual Income	2.1	1.8
Net Financial Assets	12.2	7.3
Net Housing Assets	42.0	23.8
SS Wealth	48.3	44.0

Source: *The 1994 National Survey of Family Income and Expenditure*



Per-capita Income by Age in Japan

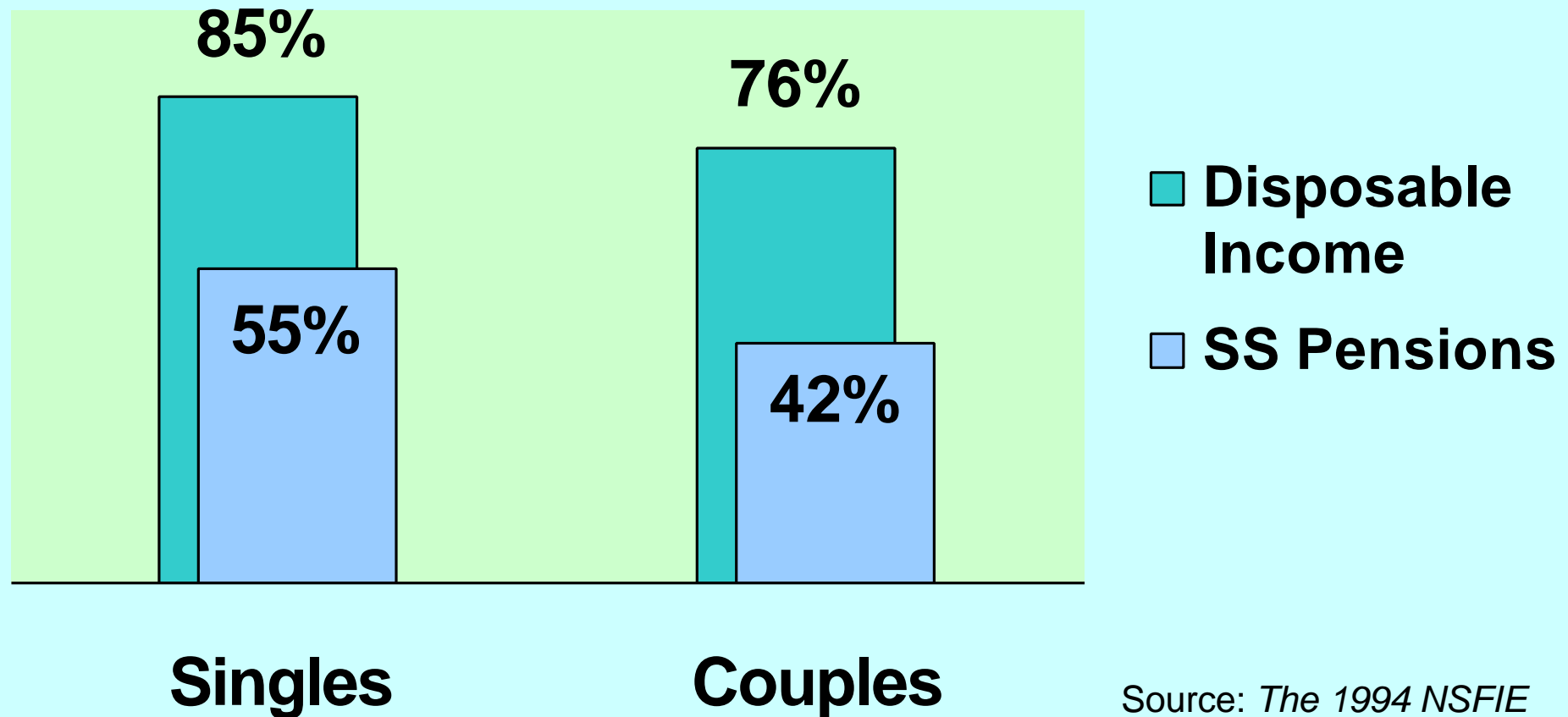
(10,000 yen)



Source: Ministry of Health and Welfare, *The 1996 Income Redistribution Survey*

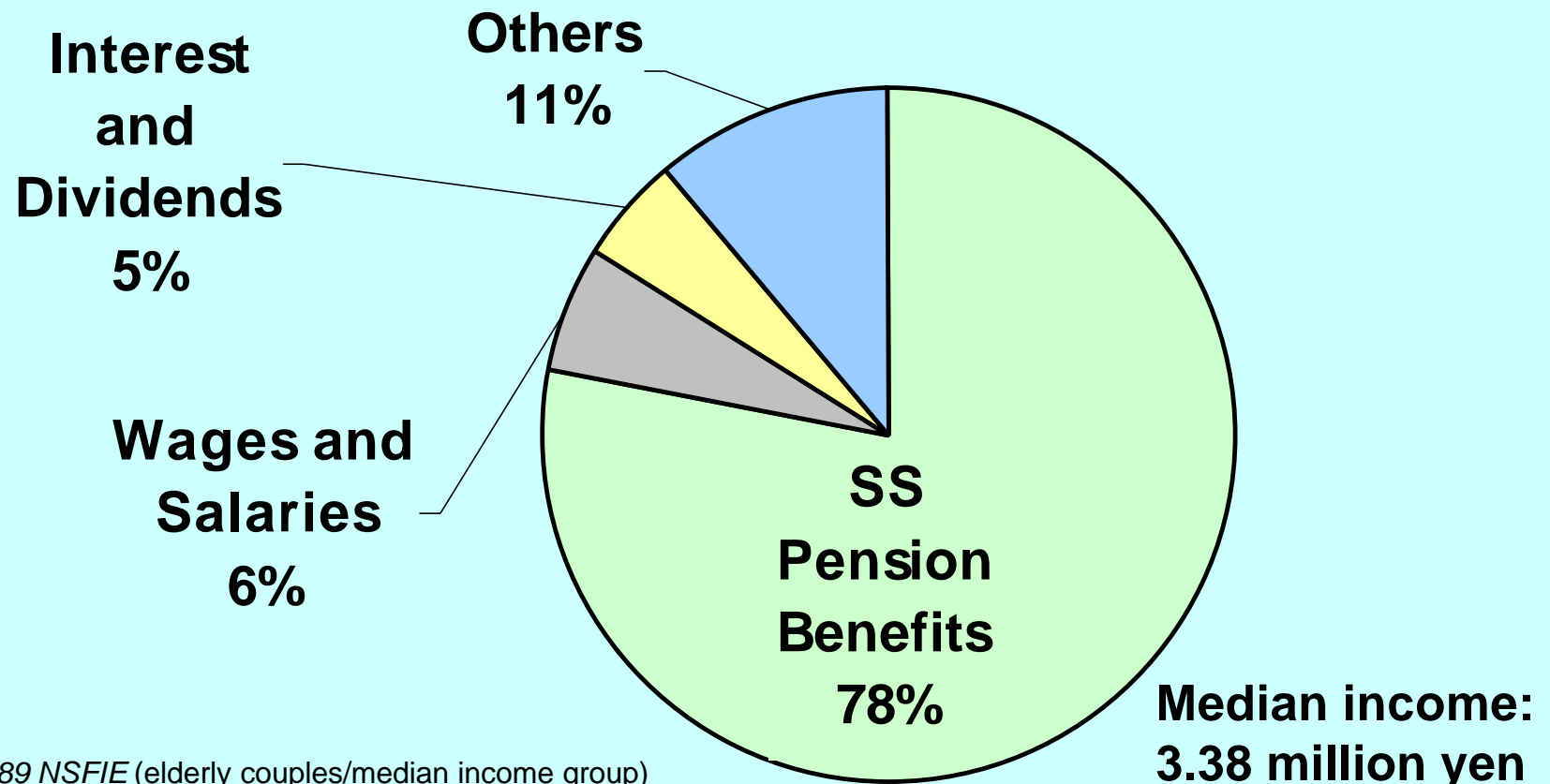


Proportion of Retirement Income to Income just before Retirement





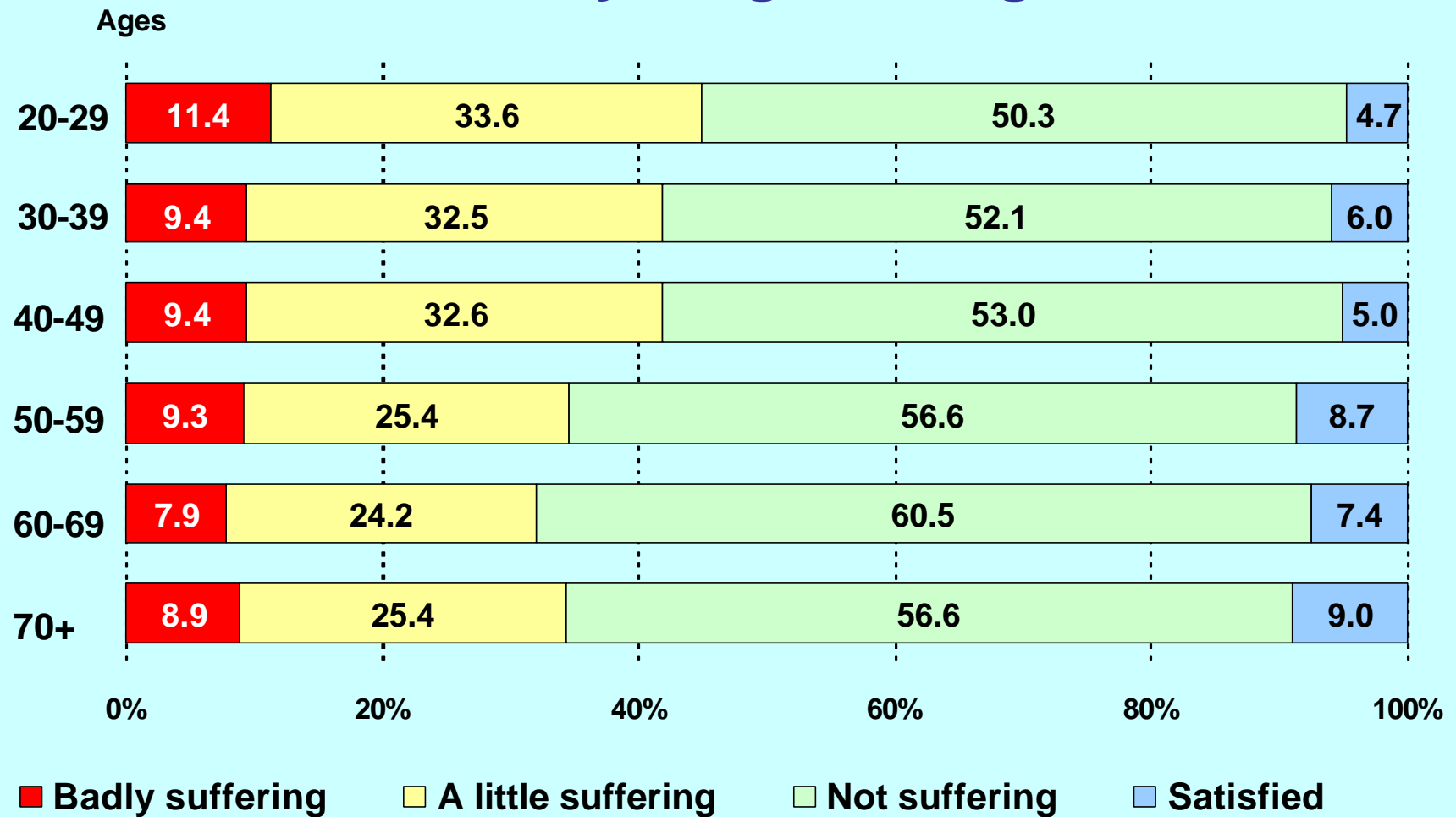
SS pension benefits are the major source of retirement income



Source: *The 1989 NSFIE* (elderly couples/median income group)



The elderly of Japan feel better off than the young in living conditions



Source: Ministry of Health and Welfare, *The 1991 Basic Survey on Japanese Living Conditions*



Will the miracle be maintained?

1 Demographic Changes

Declining Total Fertility Rates

Increasing Life Expectancy

->Sharp Decline in the Population

->Rapid Aging to be Continued

2 Economic Situations

Decreasing Labor Force

Declining Saving Rate

3 SS Pensions (PAYG DB Plans)

Incentive Compatible?

Repeated Changes in Every 5 Years

->Future Pictures; not fixed yet

4 Occupational Pensions

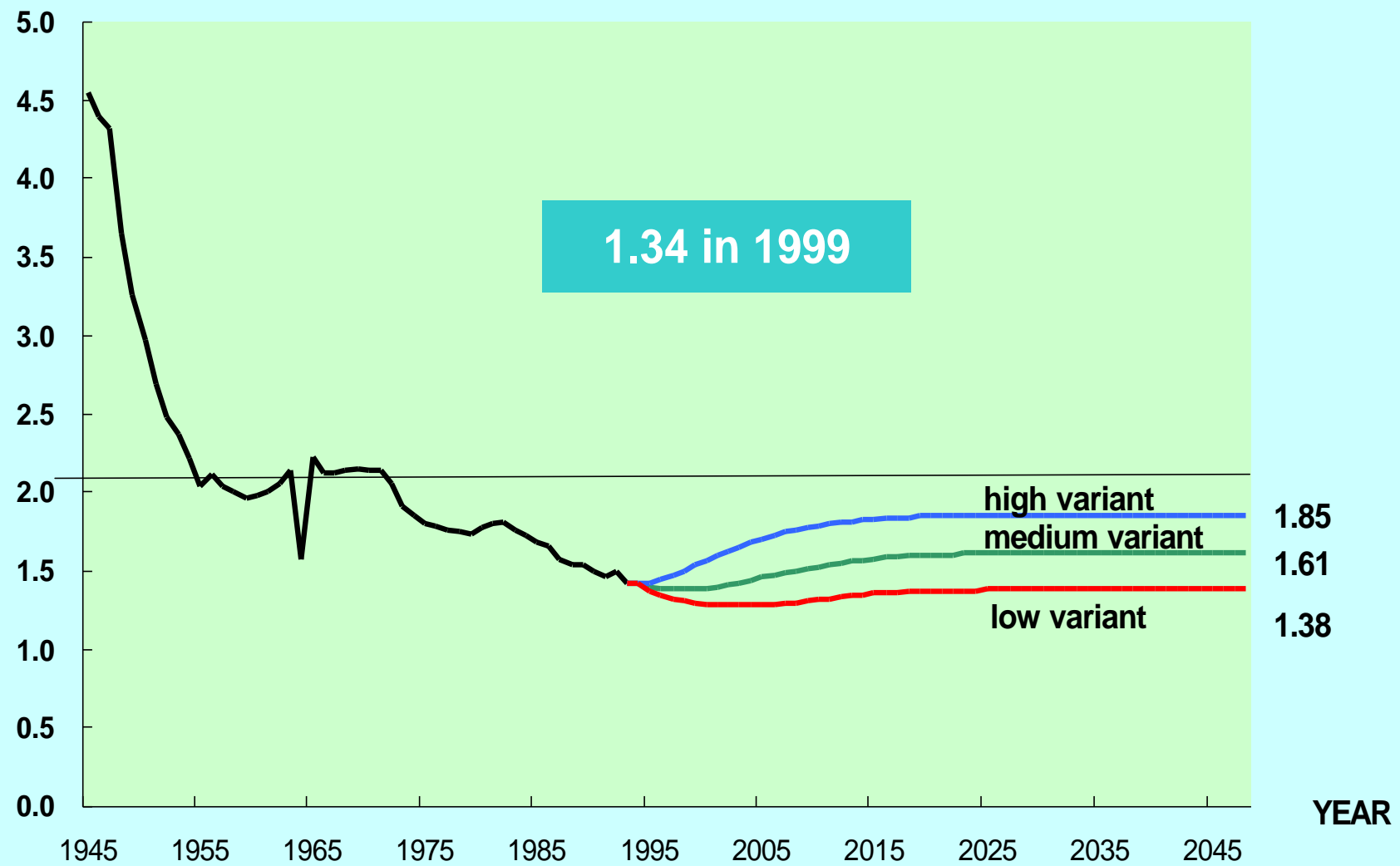
DB Plans still Predominant

Huge Unfunded Liabilities

A shift to DC Plans just Starting



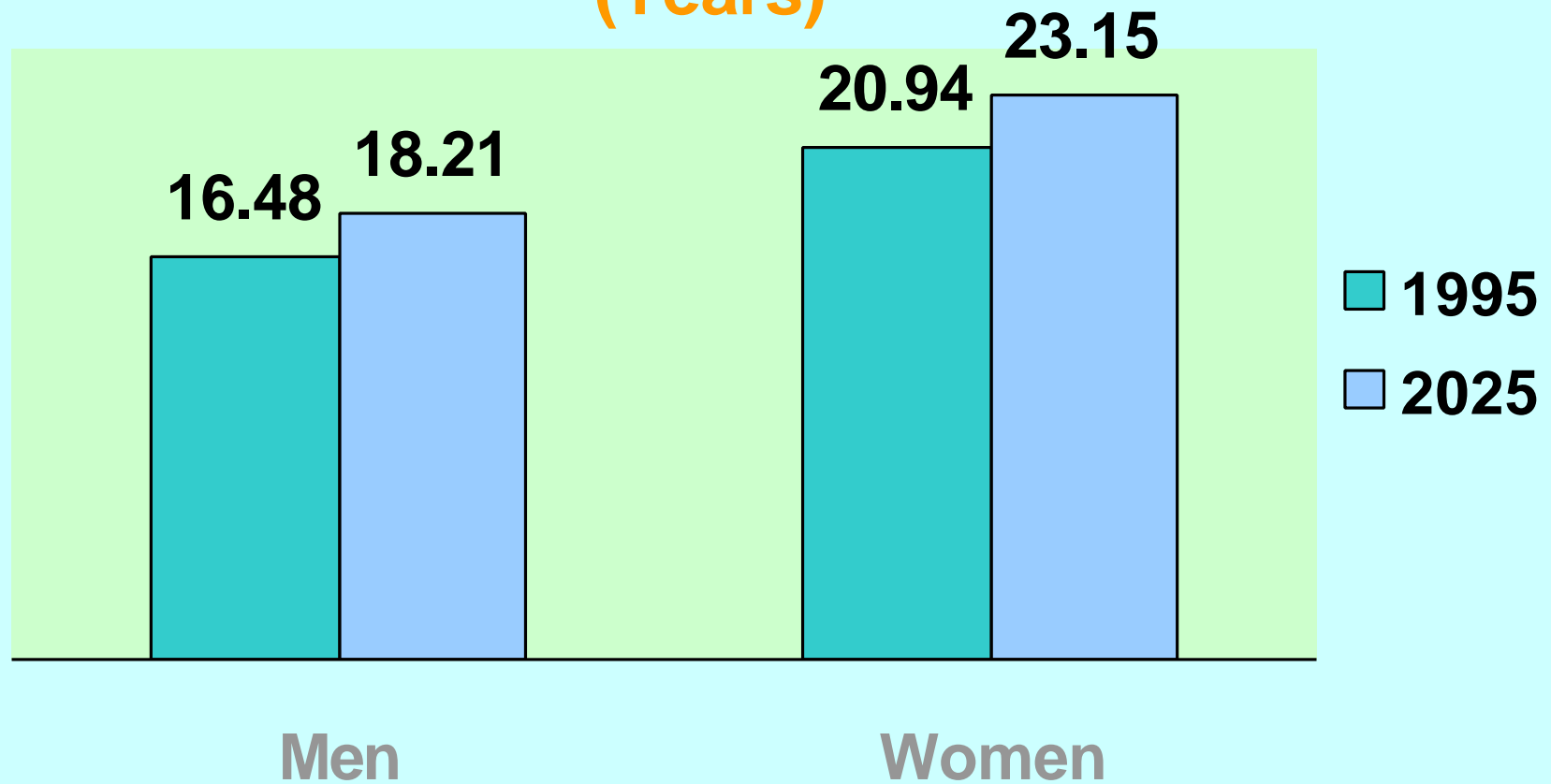
Trend in the Total Fertility Rate of Japan



Source: National Institute of Population and Social Security Research (1997), *Population Projections for Japan: 1996-2100*.



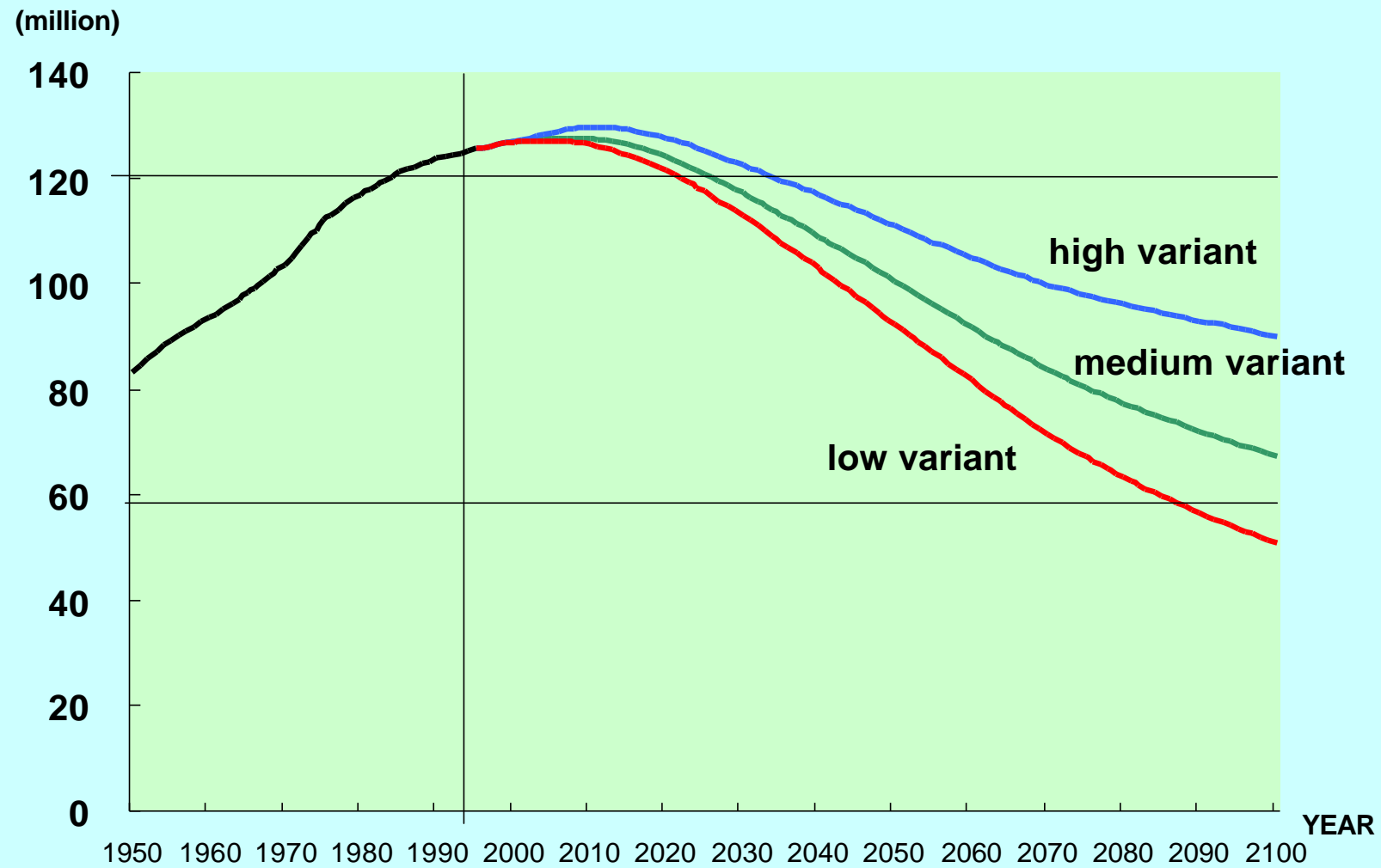
Life Expectancy at Age 65 in Japan (Years)



Source: National Institute of Population and Social Security Research, Japan (1997), *Population Projections for Japan: 1996-2100*



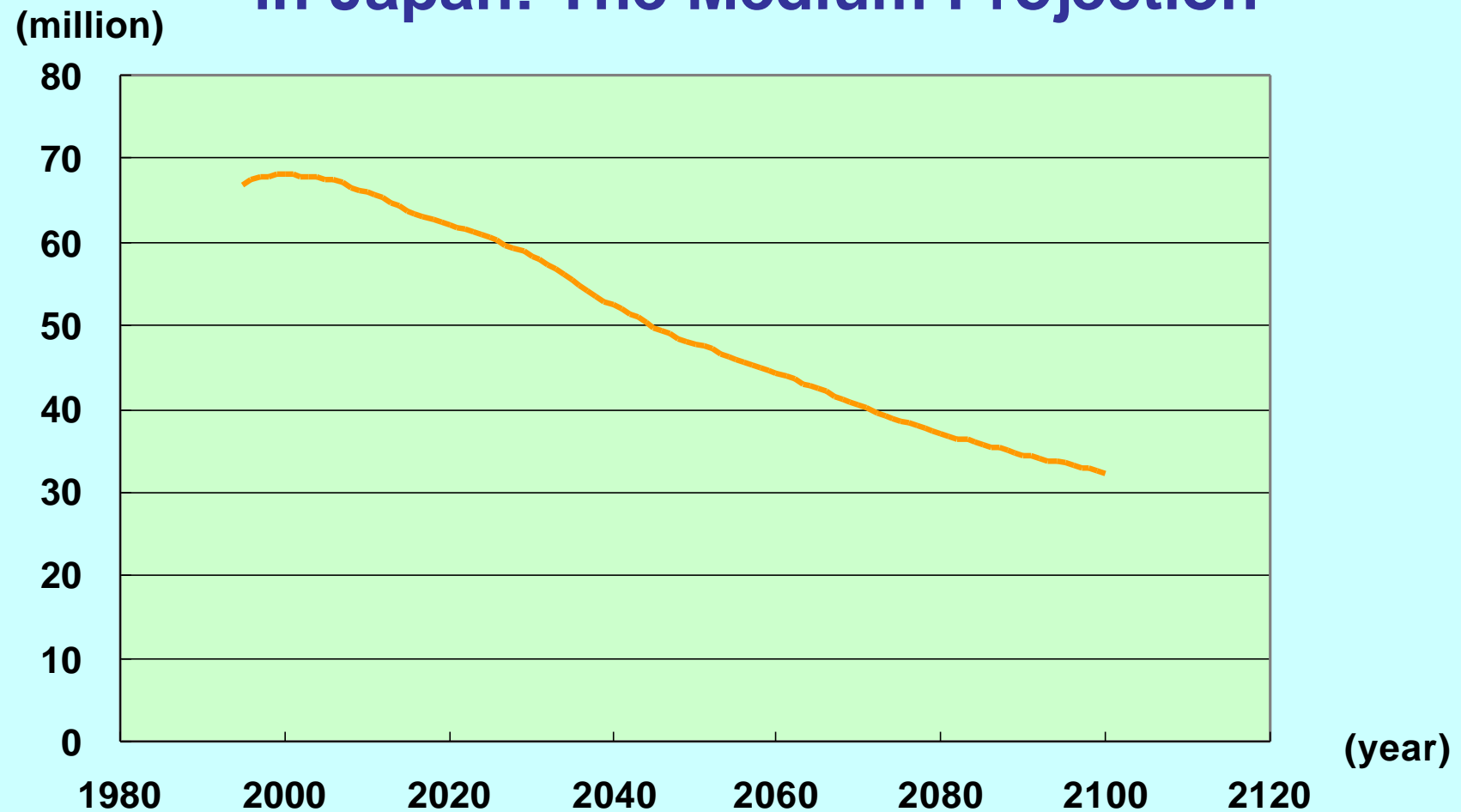
Acutual and Projected Populations of Japan



Source: National Institute of Population and Social Security Research (1997), *Population Projections for Japan: 1996-2100*

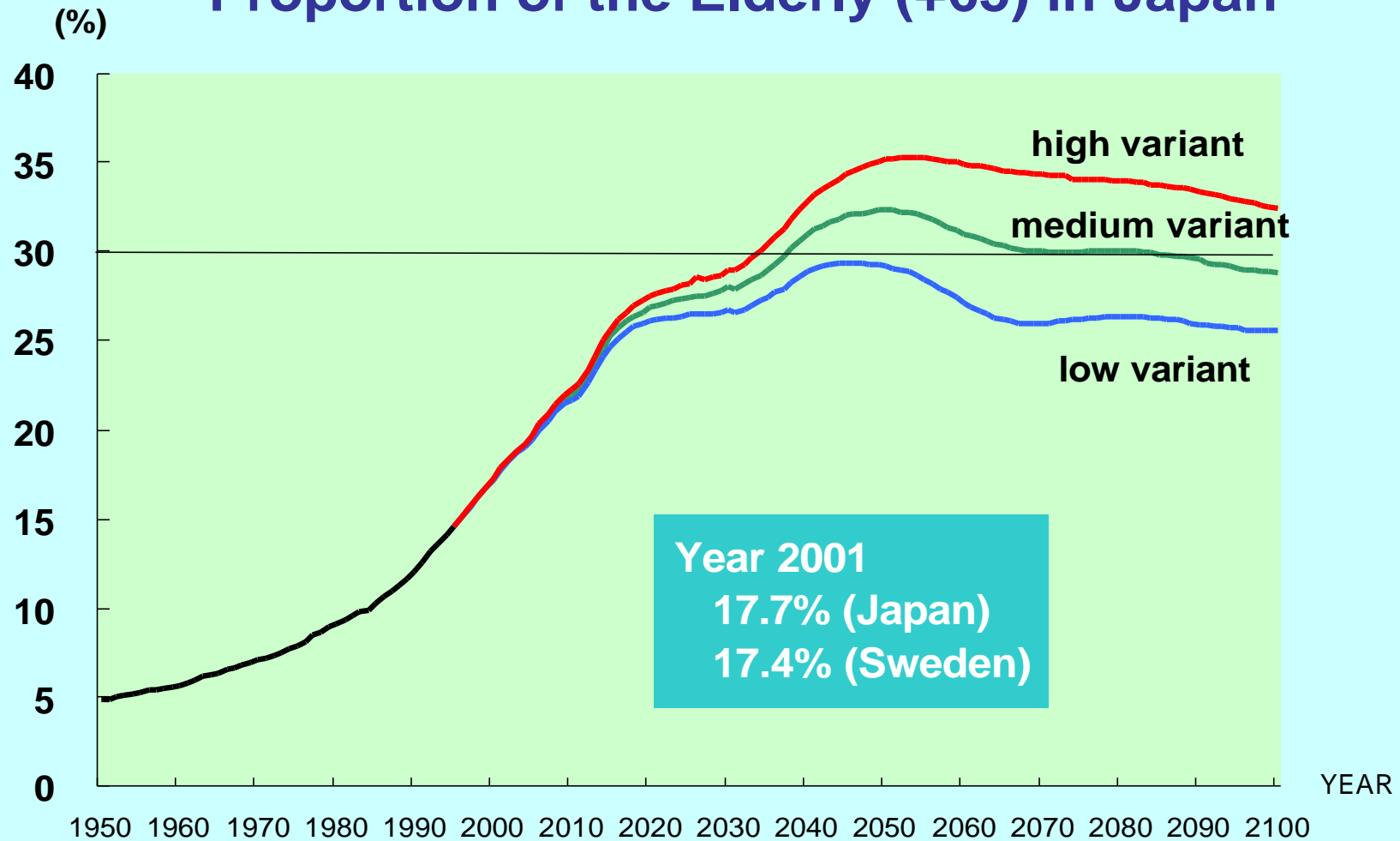


The Total Number of the Labor Force in Japan: The Medium Projection





Proportion of the Elderly (+65) in Japan

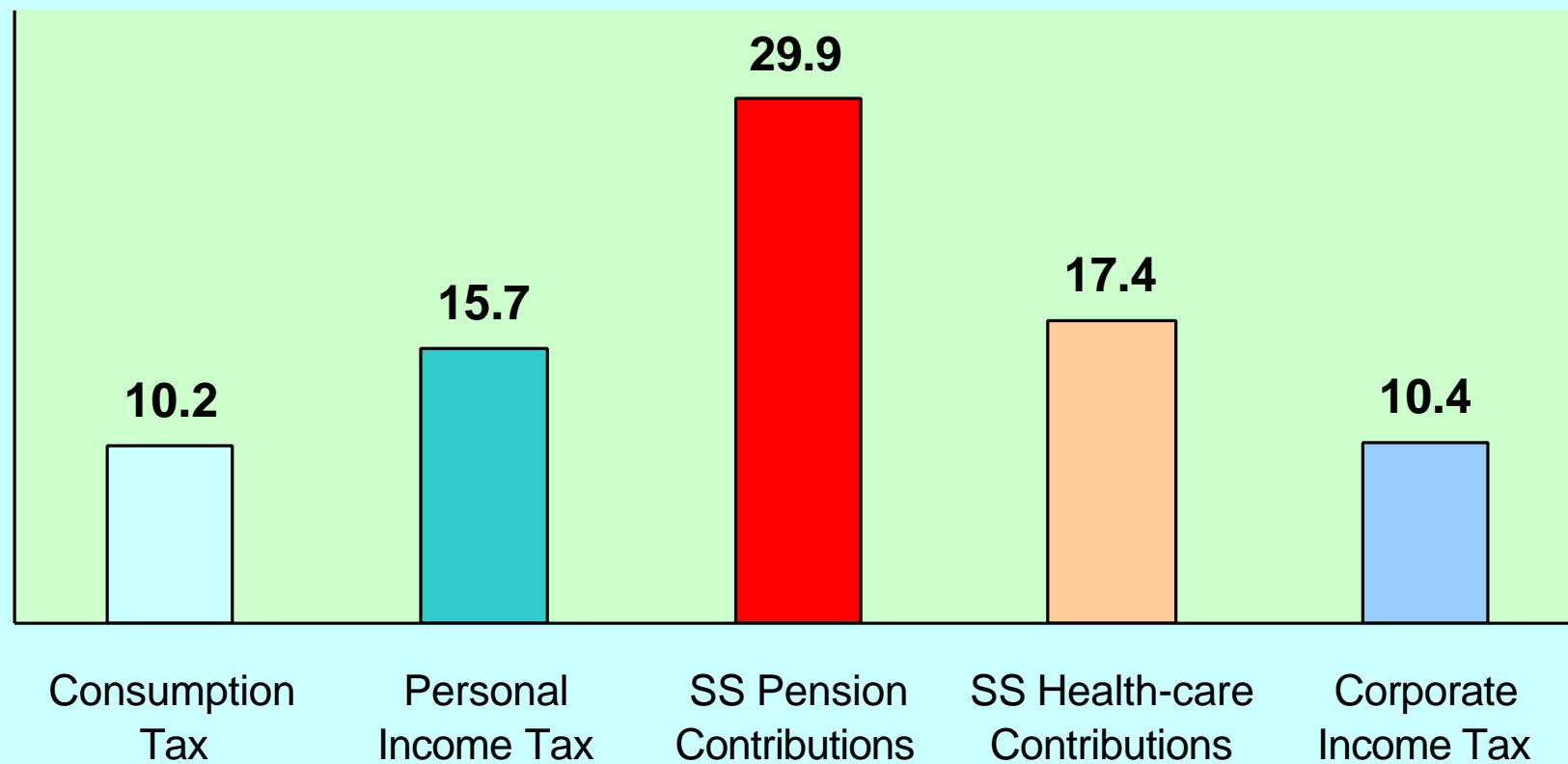


Source: National Institute of Population and Social Security Research (1997), *Population Projections for Japan: 1996-2100*



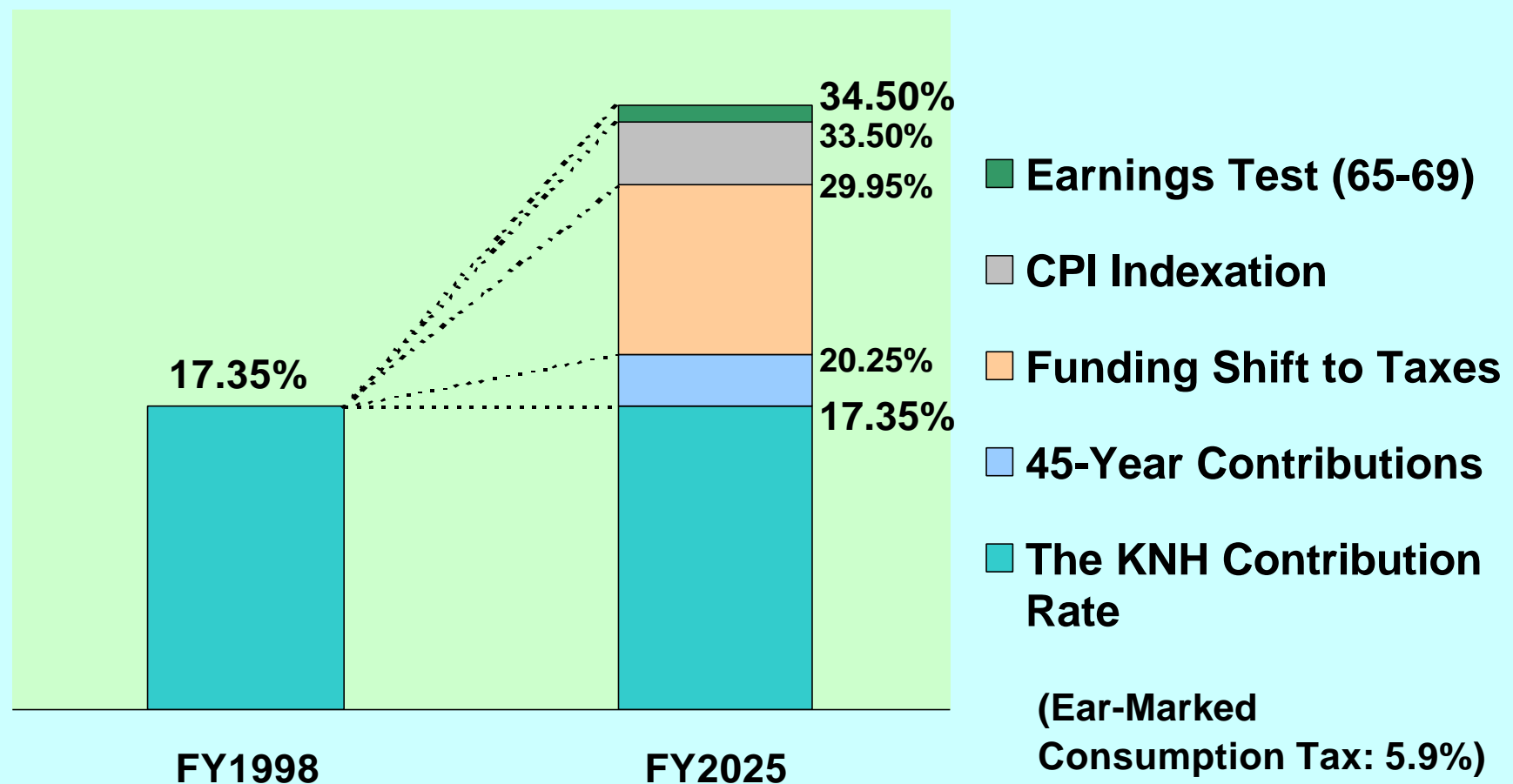
Main Income Sources of Japan's Central Government (Fiscal Year 1999)

(trillion yen)





Freezing the SS Contributions to Current 17.35%





Promoting Private Initiatives:

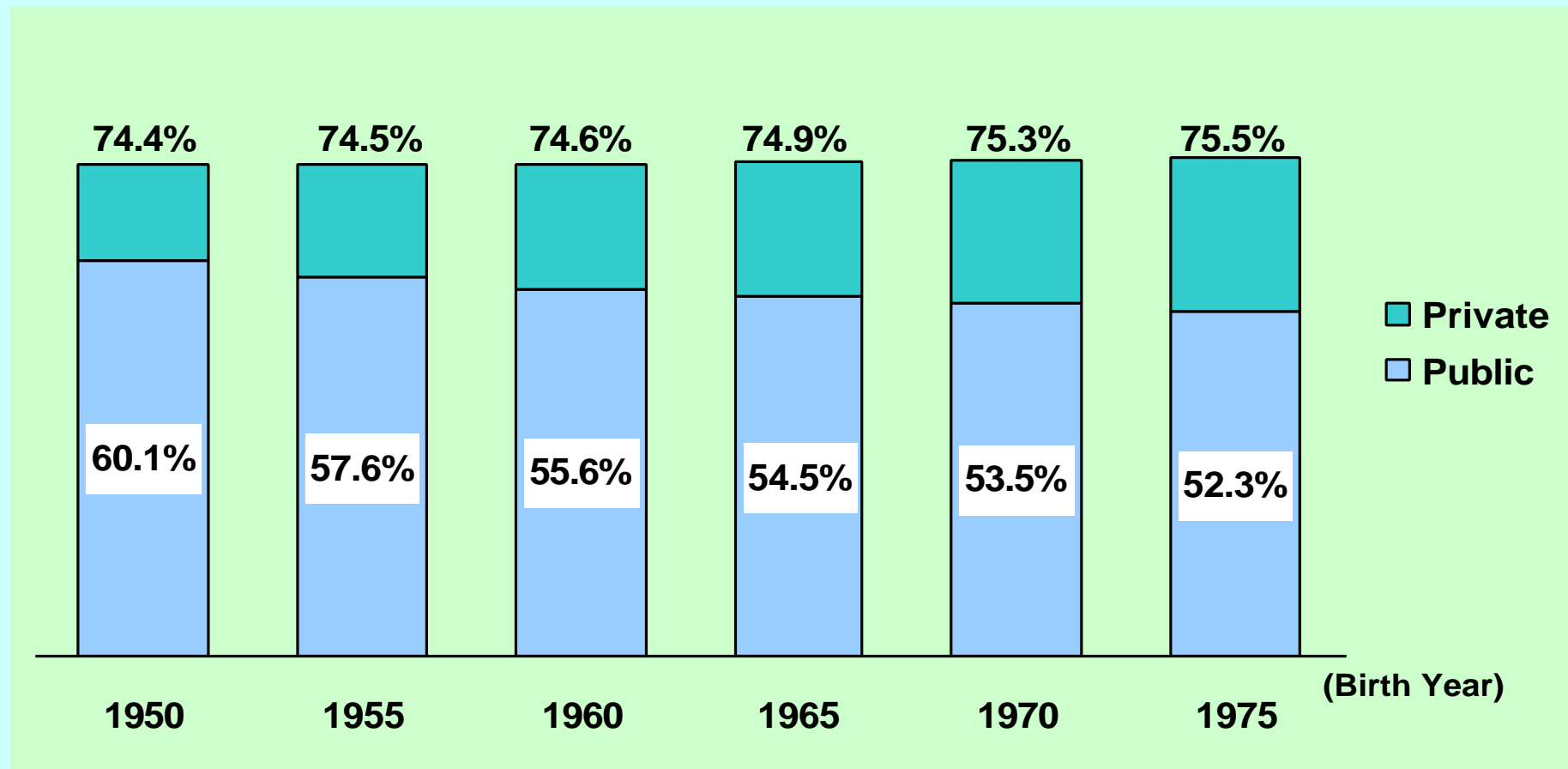
**Setting up 4% PRA, DC Plans
(A Japan's Version of 401k)**

Under modest assumptions (the expected real rate of return: 1.5% p.a. net), the combined benefits with a slightly reduced SS pensions will bring stable replacement rates.

The PRA will induce a massive substitution effect on private savings.



Replacement Rates Combined





Saving/Investment Characteristics

Mostly Savers and not Investors

Income differences are much more important

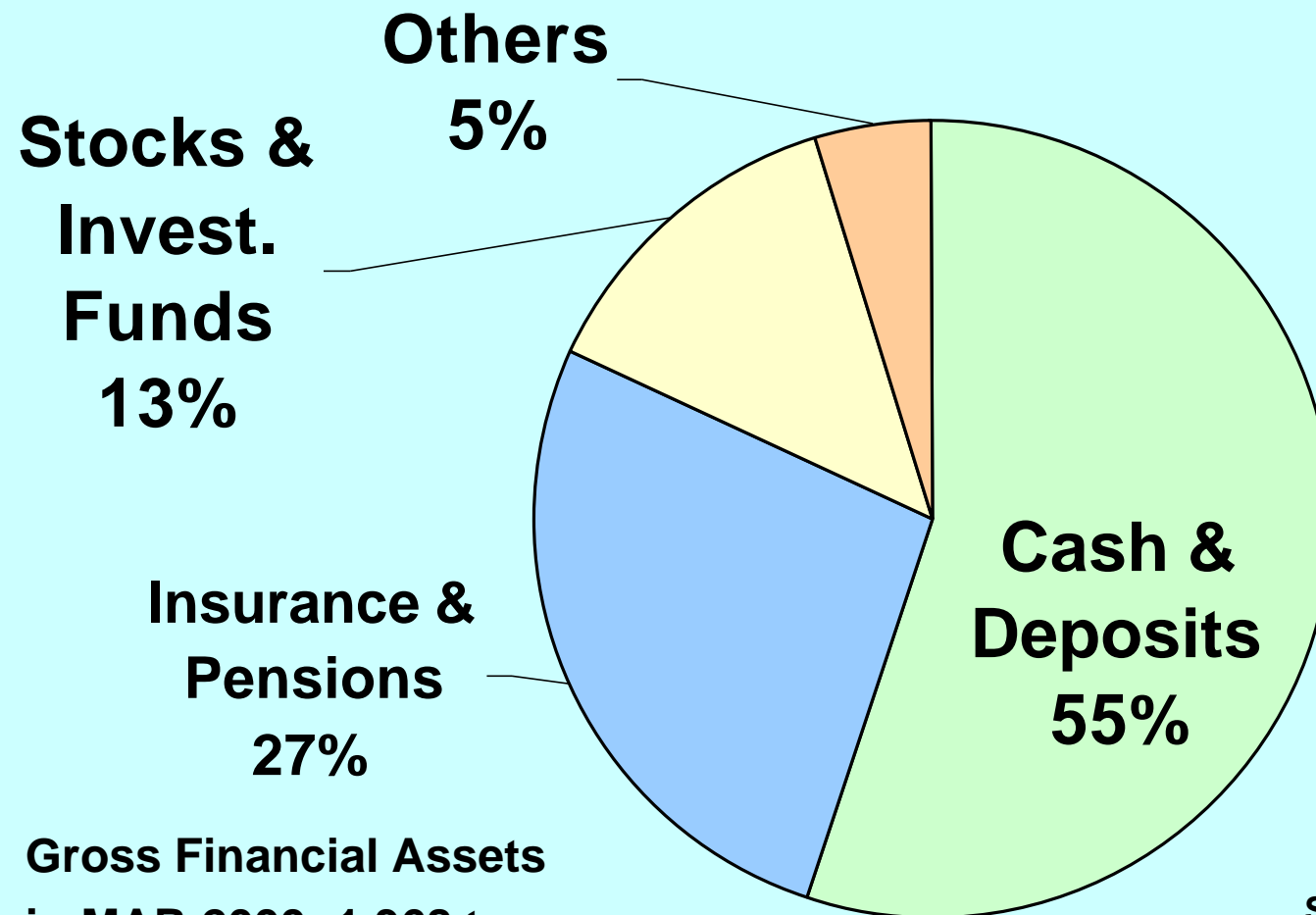
Those of age 50+ matter

Asset managers are usually females and not males

The Domestic Market Overwhelming



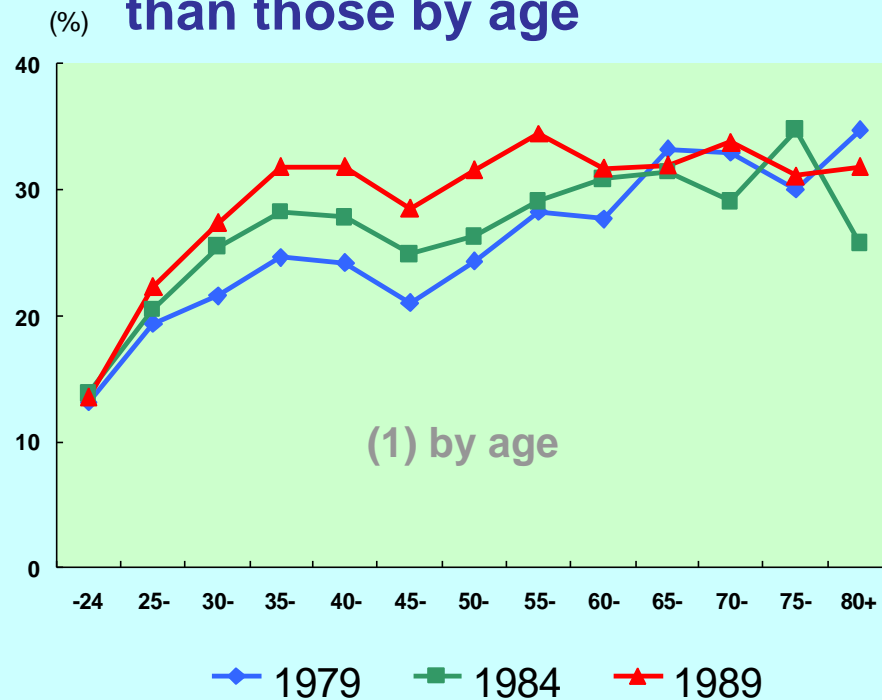
Most individuals are savers and not investors



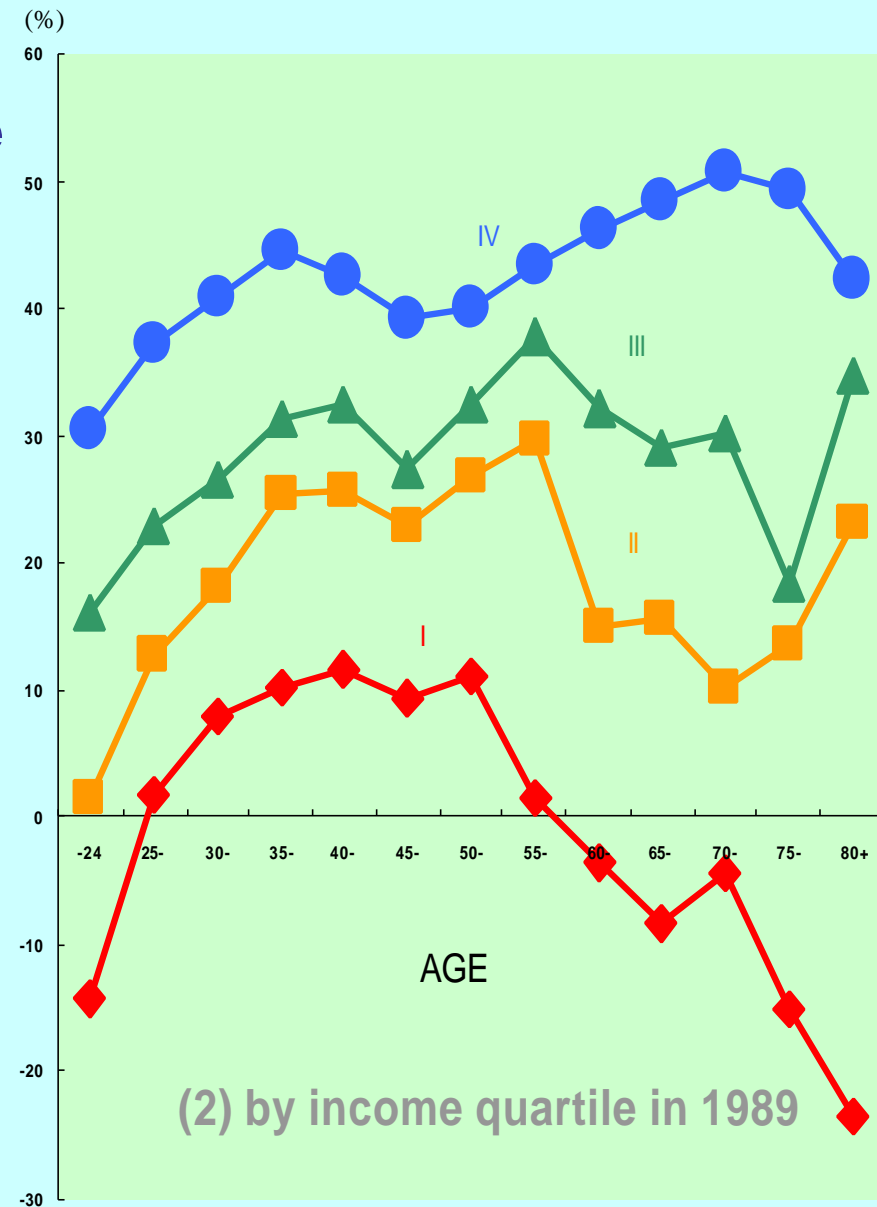
Source: Bank of Japan



Saving rates by different income classes vary much wider than those by age

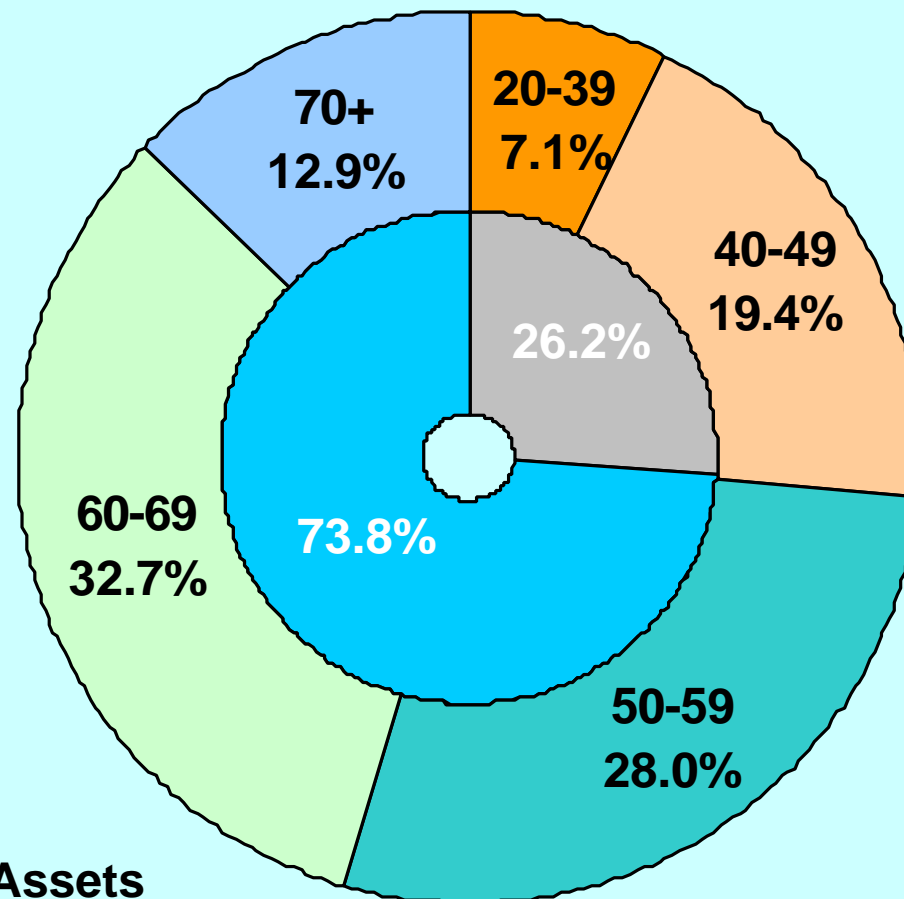


Source: *The National Survey of Family Income and Expenditure*





Nearly 3/4 of aggregate financial assets are held by those of age 50+



**Gross Financial Assets
in MAR 2000: 1,368 tn yen**

Source: Estimates by Mr. Akira KONDOH (SONY)