

CORPORATE PENSION REFORM IN JAPAN: BIG BANG
OR BIG BUST?

by

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ABSTRACT

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According to the General Outline for Japan's Defined Contribution Pension Law (no. 88) issued June 29, 2001, the introduction of defined contribution (DC) pension legislation in Japan was necessary for the following two reasons:

- The existing corporate pension system in Japan had not sufficiently permeated to small-to-medium-sized enterprises (SMEs) and entrepreneurs.
- In the event of a job change, the pension assets and transfer of those assets were not sufficiently secured, resulting in an impediment to labor mobility.¹

For Japanese employers, DC plans would increase the predictability of their pension costs while removing the funding risk from the corporate balance sheet. On the other hand, Japanese employees would be the ones to shoulder all investment-related decisions and risk – an untested concept in Japan.

From March 1997, discussions began within Japan's dominant political party, the Liberal Democratic Party (LDP), over the suitability of DC pension legislation in Japan. From there, the road to legislation proceeded in a meandering fashion until the law finally went into effect in October 2001. Expectations ran high that this legislation would induce a massive wave of DC plan conversion as Japanese companies began unloading their

¹ Translated from: 『*Kakutei kyoshutu nenkin hou (heisei 13 nen houritu dai 88 gou) no gaiyou*』 (“The General Outline of the Defined Contribution Pension Law (2001 Law No. 88)”)

traditional defined benefit (DB) plans. However, despite the continuing pressures on Japanese companies which, in the extreme were faltering under the weight of their underfunded pension liabilities, 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. Some observers interpret this reaction as paternalistic Japanese companies acting irrationally to uphold their DB promises to employees at any cost – even the risk of insolvency. However, jumping to this conclusion requires one to ignore the historical fact that Japanese companies were the main proponents of the DC law in the first place. As I will show, the main determinant of corporate decision-making on the pension issue has not been paternalism, but rather the binding constraints of the DC legislation. In other words, the *form* of the law is the key explanation for the low levels of DC plan adoption. Therefore, an understanding of what transpired between those first discussions of corporate pension reform within the LDP in 1997 until the passing of the Defined Contribution Pension Act in June 2001, will help Japanese companies, employees, and the global investment community better predict the future course of corporate pension reform and anticipate corporate behavior in response to such reform. In broader strokes, this analysis also sheds light on the nature of policymaking in Japan today.

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Section I

INTRODUCTION

*“The pension issue is a microcosm of all of the challenges facing the Japanese economy.”*²

Robert Feldman, Chief Economist, Morgan Stanley Japan

In recent years, the pension crisis in Japan has gained recognition not only among the citizens it threatens to hurt the most, but also among the international community. Even though the pay-as-you-go (PAYG) nature of Japan’s pension systems is not particularly unique in the global context, the speed with which Japan’s contribution base is shrinking relative to current and future retirees is. In a PAYG structure, contributions of the working generations are used to fund the benefits of current retirees. In the face of a changing demographic, worries about the ability of existing workers to continue to pay the pensions of retirees through defined benefit schemes surface. Although mirroring the scenario faced by most advanced nations, the Japan case provides the most 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.³ 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 is borne. 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 towards the system’s solvency.

The International Monetary Fund (IMF) pointed out in a recent assessment of Japan “the major intergenerational transfer” implicit in holding public pension funding at only 20–25

² Based on personal discussion, July 7, 2003.

³ See Section II for a more complete description of the aging population problem.

percent.⁴ The Fund expressed additional concern over the high incidence of non-payment to the national pension scheme. Taken together, the IMF called for Japan to take measures to address this “limited funding of pension liabilities” and the precarious loss of faith in Japan’s pension system.⁵ The loss of faith in the system also has hindered the effectiveness of consumption-stimulus policies to lead the economy out of recession. The IMF recommends “three pillars” to protect against the risks of poverty in old age, including the “pillar” of DC pensions. DC pensions creates a link between an individual’s contributions and that individual’s future benefits, which “undoes” the intergenerational component and demographic reliance associated with a PAYG scheme.

For other observers, legislation permitting DC pension plans in Japan represented the final measure in the deregulation of the Japanese financial system. Expectations soared within the global investment community that DC legislation would pass the Diet by year-end 1999. 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 5 years.

The introduction of new accounting standards for retirement benefits in 2000 became one more 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.

⁴ “Financial System Stability Assessment and Supplementary Information,” *IMF Country Report No. 03/287*. International Monetary Fund, September 2003.

⁵ *ibid.*

The legislative process took longer than expected, but the bill eventually passed in May 2001. Cerulli Associates revised its estimates to \$40 billion (approximately ¥4.2 trillion) over the first few years, half what experts foresaw in 1998, and just three percent of the corporate pension-fund market (*Business Week*, 25 June 2001). Nonetheless, many observers were confident that, in time, the new plans would catch on, citing the profound impact of the new accounting standards and the continued aging of the workforce.

To date, however, the reaction by firms has been far from spectacular. From the 70 DC plans initiated in the first year to the 361 plans at year-end 2002, the MoHLW recorded 538 DC plans in Japan as of September 2003.⁶ To put this in perspective, the total universe of private pension plans⁷ prior to the legislation neared 80,000.

This paper partly challenges the conventional wisdom that companies in Japan engage in paternalistic behavior and argues that corporate behavior, in the face of new pension options, is better explained by the constraints of the new pension legislation. The main research question then becomes the following: what can account for the apparent stalemate within the government on the passage of DC legislature specifically, and corporate pension reform more generally? This paper attempts to recreate a rough sketch of the debate within the government on this issue from 1997 to 2001.

Existing explanations for reforms in Japan emphasize specific domestic variables: electoral reforms (Rosenbluth and Schaap, 2003) and bureaucratic leadership in response to a legitimacy crisis (Toya, under review). Amyx depicts Japan as a “network state” in which policy outcomes in the finance arena through 1998 resulted from “the negotiation among actors within the context of informal but institutionalized network associations intersecting in the MOF [Ministry of Finance]” (under review, 4). Thereafter, domestic political

⁶ Source: www.nikko-fi.co.jp

⁷ Includes both Employees Pension Funds (EPFs) and Tax-Qualified Pension Plans (TQPPs).

change under coalition government and a significant rise in information requirements for effective regulation created “paralyzing networks with disastrous results.” (ibid, 3). Existing works addressing the reform of corporate pensions in Japan (see, for example, Urata 2001, Usuki 2003, Shimada et al 2003, Clark and Mitchell 2001, and Cerulli 2003) tend to take the legislative outcome as a given without exploring the political interactions and events shaping the law.

Tiberghien (2002) calls the corporate pension reform “not surprising” and indicative of the continuation of the status quo in Japan. However, 1999 was not a “status quo” year in Japanese reform policy. Politically difficult legislature such as bankruptcy law reform, the industrial revitalization law, and commercial code reforms made their way into law that year. Kathy Matsui of Goldman Sachs describes the government of Japan as being both “pretty good and pretty quick” on adopting better rules and restrictions regarding transparency.⁸ What she calls the “Accounting Big Bang” in Japan provides one such example. Despite concern that the Japanese accounting body would backtrack on the implementation of some of these reforms, the actual reform timetable almost perfectly mirrored the proposed timetable assembled by the accounting standards board in Japan in the late 1990s. The marking of assets to market value, which impacted cross-shareholdings, represented a particularly “painful” change for the Japanese economy once the equity market entered a prolonged state of decline. Furthermore, the pension-related accounting reform stayed on schedule and introduced a standard nearly identical to Financial Accounting Standards Board (FASB) Statement 87 in the U.S. Against this backdrop then, further analysis is warranted. Specifically, I seek to understand why the DC law delayed when other more “difficult” reforms stayed on track.

⁸ Based on comments made at “Corporate Governance in the New Japan”, Japan Society of Northern California Conference, November 3, 2003.

This paper applies George Tsebelis' veto player model⁹ in an attempt to account for the numerous actors involved in Japan's legislative process. The slow, drawn-out process that ultimately led to a "water-downed" reform outcome is the result of the complex interaction of veto players with conflicting agendas. The complexity of the pension issue and the overlapping jurisdictional control of multiple agencies, occurring under an environment of unstable political leadership and protracted economic recession, cast a shadow over the consensus-forming coordination typically seen in Japanese policymaking.

The remainder of this paper is organized as follows: Section II outlines the nature of the crisis, its leading causes, and future implications. In Section III, I dismiss paternalism as the catch-all explanation for interpreting the lackluster reception of DC plans in Japan and argue that corporate behavior mirrors the limitations of the law. Section III also presents the theoretical basis for corporate pensions and how other countries have tackled pension reform questions. Section IV and V turn to the political process shadowing DC legislation and how this ultimately influenced the *form* of DC plans in Japan. Section VI applies the lessons learned from this paper to comment on the likely future direction of the pension debate in Japan. I conclude with some brief remarks on the implications of veto players influencing policy outcomes and the role for Japanese political leadership within this process.

⁹ See especially Tsebelis 1995, 1999, and 2002.

Section II

PENSION CRISIS

Koreishoshika Shakai

The societal phenomenon of *korei* (aging) coupled with *shoshi* (few children) has created a situation of unparalleled experience in Japan compared to other nations. Technically, Japan has been an “aged nation” by conventional UN classifications since 1970 when the nation’s 65-and-over cohort crossed the seven percent threshold relative to the rest of the population. While most developed nations now fall in this category, none have moved as quickly or dramatically toward an aged society as we observe in the Japanese case.

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-war era led to dramatic drops in infant mortality as well as in the mortality rates for all other age groups. In addition, Japan, today, sports the highest life expectancy for both males and females in the world, at 73.8 and 76.3 years, respectively.¹⁰ 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 has dropped to its current (2002) record low of 1.32.

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* 25 October 2003).

¹⁰ The U.S. is ranked 28th and 30th for males and females, respectively. Source: <http://www.who.int/whr2001/2001/main/en/annex/annex4.htm>

Demographic Link to Pensions

As the number of older people relative to younger people increases, there are more pension beneficiaries per working individual. Economists define the “dependency ratio” as the ratio of working age population (individuals aged 15 to 64) to pensioners. In Japan, the dependency ratio has changed dramatically over the years and 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. The month prior, Standard & Poors moved to downgrade Japanese government bonds to AA-.

This still begs the question: why do demographic trends matter? The simple answer is that they don’t – provided that the economy is open¹¹ and the pension system itself is self-funded or defined contribution. Demographics matter when pension plans are “pay-as-you-go” or underfunded. Pay-as-you-go plans typically reside in social security or other types of social insurance programs in which there is an implicit generational transfer that funnels contributions from the current working class to pay benefits of current retirees. In other words, the benefits of current retirees are financed primarily by the contributions of current workers. An aging population therefore necessitates further increases in the contribution rates of younger (working) cohorts.

On the other hand, underfunding refers to a condition of a plan that may or may not be fully pay-as-you-go, but that is experiencing an inequality between the present value of the assets plus (expected) contributions and interest income and the present value of the

¹¹ Note: In a closed economy, market returns driving values in DC plans would be adversely affected by falling fertility rates.

(expected) stream of (benefit) payments. The main risk associated with either case arises when current or future payout levels are expected to exceed receipts (e.g., contributions, interest income) thereby causing stress on the system. Such jumps in the payout levels arise from the unexpected or deviations from plan assumptions that can be attributed to factors such as interest (discount) rates, turnover, mortality, wage growth, and retirement age.

Japan's public pension system is predominantly pay-as-you go although past surpluses have provided an extra cushion of funding. This cushion has grown thin with the Employees' Pension System posting its first deficit in 2001 (Cabinet Office, October 2003). Kunji Okue, an economist at Dresdner Kleinwort Wasserstein, estimates that the public pension investment fund will run cumulative deficits worth 27 trillion yen¹² over the next five years and describes the national pension plan as the current Prime Minister (Junichiro Koizumi)'s 'time bomb' (*New York Times*, 28 September 2003).

Other Strains on the System

One enormous strain on the system is the increasing number of self-employed who simply do not pay. Unlike salaried workers whose premiums are automatically deducted from their pay, roughly 18 million self-employed people and students aged 20 or older pay their required premiums directly to the government for the basic portion of the national pension program. In fiscal 2002, the percentage of 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*, 27 October 2003).

In Japan, the number of people skeptical of the national public system is growing. According to a *Yomiuri Shimbun* survey conducted in August 2003, 57 percent of the public said they had no faith in the system (*Daily Yomiuri*, 13 September 2003). This is the

¹² Note: the exchange rate was approximately \$1 = ¥112 at the time of this article.

highest figure recorded in the seven-year history of the survey and up 3.7 percentage points from the previous survey in September 2001 (ibid). Moreover, among respondents in their twenties, the lack of confidence in the system is a staggering 82 percent who say they do not trust the scheme (ibid).

The government, in an attempt to bolster the public pension system, is slated to increase its share of contributions from one-third to one-half by fiscal 2009, and the raised burden is expected to cost the government an additional 2.7 trillion yen every year (*Japan Times*, 18 December 2003). The source of that funding is a current debate among the political parties and the Cabinet.

However, the office that is directly responsible for the management of social security programs, the Ministry of Health, Labor, and Welfare (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*, 3 December 2003). This marks the 14th consecutive year that the MoHLW¹³ has received this relegation from the Board of Audit, an independent commission that works outside of the jurisdiction of the Cabinet. For 2002, the Board estimated that the MoLHW had mismanaged some 12 billion yen (ibid).

Other structural problems plague the system. A growing burden-benefit disparity is creating a rift between the young and elderly. In contrast to those born in 1950 who currently receive benefits worth five times their lifetime contributions (Amyx 2002), the Japanese government is forecasting that those now in the 20 to 40 year-old age bracket ultimately will pay more into the system than they will ever receive (*Japan Times*, 25 October 2003).

¹³ formerly the Ministry of Health and Welfare.

As Hatta and Oguchi (1999) attest, lifetime benefits in the National Pension System exceed lifetime contributions for those born before 1970, with the disparity increasing with age. Meanwhile, lifetime benefits will fall short of lifetime contributions for those born after 1970, with this disparity higher the younger the participant. Horioka (1999) points out at least two reasons for this. First, benefits were made too generous relative to contributions at the time of the 1973 pension reform, especially for those close to retirement in 1973, which necessitated cuts to the benefits of younger cohorts as well as increases to their contribution rates. Second, although the aging of the population in Japan is partly a permanent phenomenon caused by increases in life expectancy and declines in the birth rate, there is also a temporary aspect caused by the aging of the postwar baby boom generation born between 1947-49, which is necessitating 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, underfunding is gaining recognition as a fundamental concern for companies. A report published in October 2003 shows that pension fund assets at 100 of Japan's largest companies cover less than half the cost of payments due to retirees (*Financial Times*, 22 October 2003). This figure remains despite the fact that underfunding deficits were reduced by a half-year rally in Japanese stocks during 2003. The costs of managing this deficit present an additional problem expected to persist for the next decade, which highlights to some investors the underlying structural weaknesses still plaguing most Japanese companies.

The Lost Decade: Recession Japan

Just as Japan gained fame for achieving levels of heretofore unseen growth in the postwar era, the same economy is now experiencing a recession of nearly the same unprecedented quality in terms of length. From 1956 to 1973, the economy grew at nearly 10 percent a

year. Thereafter, growth slowed to 3.8 percent until 1991 (Schoppa 2001), but on the heels of such a long period of high growth, a little slowdown was expected.

After the bursting of the bubble economy, however, the economy has failed to grow more than one percent a year. 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.”¹⁴ In macroeconomic terms, Japan’s lost decade has 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.

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

The “Annual Report on the Japanese Economy and Public Finance 2003,” released by the Cabinet Office on October 31, 2003,¹⁵ encapsulates the government’s apprehension over the negative impact of the aging population on the country’s future economic growth. According to the white paper, the percentage of households consisting of non-employed elderly people expanded from 13.8 percent in 1995 to 22 percent in 2002, and their savings rate (i.e., the ratio of savings against income) has fallen from minus 11.5 percent to minus 26 percent. In other words, a growing proportion of Japanese households has a negative savings rate that is becoming increasingly negative as savings are drawn down to cover shortfalls in income.

¹⁴ From PS 516 Course Syllabus: “Why Can’t Japan Get Back on Track?” University of Pennsylvania (Fall 2003).

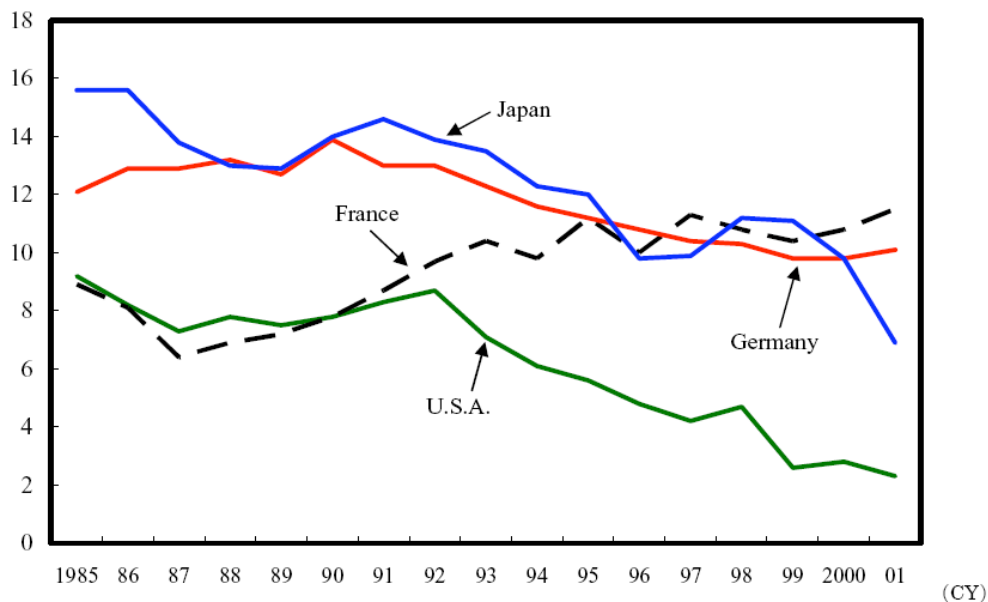
¹⁵ Source: www.cao.go.jp.

Corporate Pensions: the final savior?

With the public pension system hanging in the balance, one might reasonably expect personal savings to emerge as the primary form of income for many Japanese retirees. However, there are signs that the Japan of high-savers is slowly dissipating. **Figure 2-1** shows how Japan's savings rate fell below the levels recorded in France and Germany in 2001, and has been trending towards the U.S.

According to flow-of-funds numbers published by the Bank of Japan, money put into saving or stock investments by households between July 2002 and June 2003 fell about ¥1.3 trillion short of the combined amount of borrowings and savings spent in the same period (*Yomiuri Shimbun*, 31 October 2003). The household saving rate, or the amount of money each household puts into its savings from its after-tax income has dropped from 11.1 percent in

Figure 2-1: International Comparison of Household Saving Rates¹⁶



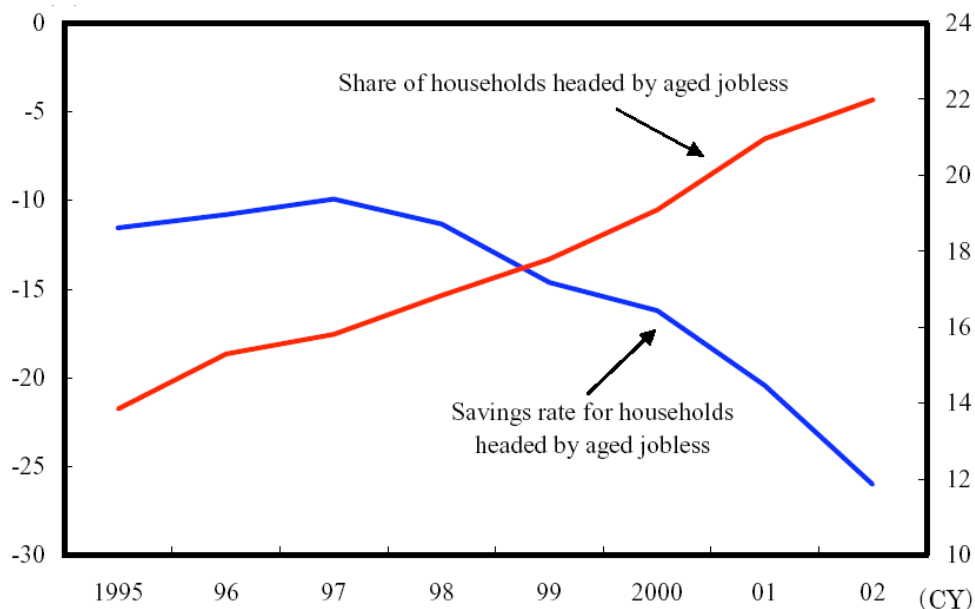
¹⁶ Source: "No Gains without Reforms III," *Annual Report on the Japanese Economy and Public Finance*. Cabinet Office, Government of Japan, October 2003.

1999, to 9.8 percent in 2000, and further to 6.9 percent in 2001, according to the “System of National Accounts” released by the Cabinet Office every year. The changing demographic is certainly a key driver of this trend. As **Figure 2-2** indicates, the number of elderly households in Japan is rising against the their declining savings rate.

Against these main factors: (i) instability of the public pension system, (ii) a deteriorating national savings rate and aging demographic hindering economic growth, and (iii) life expectancy increases, corporate pension plans take on new importance as the aging crisis heads toward a peak over the next 20 years.

In Japan, plan choice has tripled in recent years following the passage of the Defined Contribution Act in 2001 and the Defined Benefit Occupational Pension Act (allowing cash balance plans) in 2002. Furthermore, regulations on pension fund management have eased in

Figure 2-2: Household and Saving Trends among Japanese Elderly¹⁷



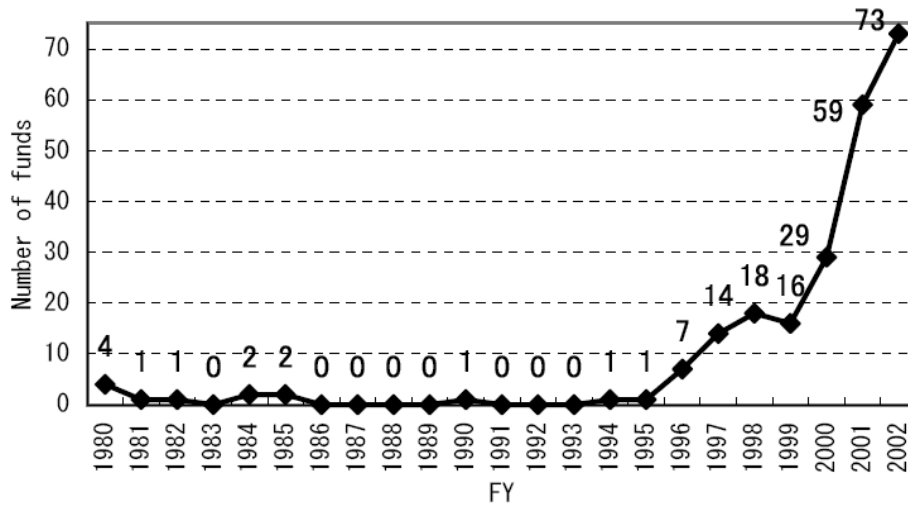
¹⁷ Source: “No Gains without Reforms III,” *Annual Report on the Japanese Economy and Public Finance*. Cabinet Office, Government of Japan, October 2003. Note: Elderly is characterized as over 60 years old.

accordance with the Financial Big Bang and the internationalization of the global financial markets. In the aftermath of high-profile collapses at Sanyo Securities, Hokkaido Takushoku Bank, and Yamaichi Securities in November 1997, much of Japan's long-held resistance to deregulation and changes in securities and tax laws seemed to dissipate. During Japan's *kisei kanwa* (deregulation or 'rule relaxation'), so-called 5-3-3-2 regulation¹⁸ and the regulation on the ratio of investment allowed through investment advisory companies were abolished in 1997 and 1999, respectively. On April 1, 1998, Japan announced its "Big Bang" or Financial System Reform Law, which amended 22 banking, investment trust, and securities laws. Deregulation paved the way for foreign firms to sell their products through new distribution channels. 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*, 15 April 1999).

Meanwhile, Japanese companies were struggling to make themselves more competitive in an increasingly global economy. Traditional Employer Pension Funds (EPFs) have suffered from poor financial conditions in the deteriorating investment environment following the collapse of the bubble economy. As **Figure 2-3** illustrates, the number of terminated EPFs began to rise steadily from 1995, and noticeably higher since 1999.

¹⁸ Regulation stipulating the investment rule of 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.

Figure 2-3: Number of Terminated EPFs¹⁹



The decision toward termination can only be considered a sign of unavoidable change in Japan. Others will argue further saying that it reveals 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.

¹⁹ Note: The 2002 figure is as of October 24, 2002. Source: Institute of Pension Research, Nikko Financial Intelligence, Inc./Pension Fund Association's *Annual Report on of Employees' Pension Funds*.

Section III

PATERNALISM DE-BUNK-ED & DC NON-PROLIFERATION

“DC plans remain the biggest mirage in the Japanese asset management industry.”
Cerulli Associates, 2001

Dispelling the Conventional Thinking

The lukewarm response toward DC plans in Japan is a further reminder to some Western observers that Japanese companies are somehow “different” and subject to much stronger paternalistic motives than their Western counterparts. Cerulli (2003) remarks, “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” (44).

Indeed, the argument for paternalism in Japan is a long-held one that extends beyond the current discussion of corporate pensions. Dore (2000) and Vogel (forthcoming) argue that a different form of capitalism – social capitalism – exists in Japan. Dore explains, “The greater tendency of Japanese associations to develop community-like characteristics is part of this more general tendency for economic transactions to be ‘embedded’ in this kind of (achieved) social relationship” (2000, 45). Dore describes ‘institutional interlock’ and ‘motivational congruence’ as the two mechanisms at work. While interlock is enforced by practices of lifelong employment, long-term customers, and patient, long-term commitment, “the consistency of the motivating maximands which lie behind behavior over a wide range of social and economic situations” make the Japanese largely ‘predisposed’ to act in certain ways (ibid, 47-48). However, Dore acknowledges that there is a pressure on Japan to move toward a more Anglo-Saxon model of capitalism (ibid, 51). Absent population and labor force growth, he questions the ability of Japanese firms to remain ‘employee-favoring’ at the expense of shareholders.

When favorable economic conditions ensue, we observe companies – regardless of nationality – leaning towards paternalistic models. Consistent with rational economic actors, firms need to fight for increasingly scarce resources (labor) during periods of economic boom. In the U.S., companies acted precisely this way in the late 1990s. Threatened by the outflow of employees, U.S. companies responded by instituting new employee retention policies and enhancing benefit provisions. Japan was no different and arguably more inclined to expand pensions and other forms of benefits during its period of high growth and economic prosperity. Not only was the nation experiencing unprecedented levels of growth and economic wealth, but there was a growing awareness over the huge disparity of wealth between younger (working) generations and older (retired) generations. Namely, older generations were thought to be “missing out” on the tremendous wealth achieved largely through the toil of their efforts.

Gaiatsu or international pressure also played a role in the build-up of Japanese corporate pensions during the 1980s. Foreign companies charged that Japanese companies had an unfair competitive advantage in their pensions since less benefits and fewer funding requirements meant Japanese companies could operate under a lower cost structure. In response, Tokyo encouraged Japanese companies to raise their pension plan benefits to international levels. Companies would have been foolish to resist since the bubble economy created profit centers out of their invested pension assets. At that time, EPFs had no trouble meeting the promised rate of interest set by the government and posted large gains during the bubble economy.

When the bottom fell out of the Japanese stock market, the pension profit center dried up and turned into a gaping hole of underfunded liabilities. Meeting the promised rate of interest (5.5 percent at the time) became increasingly difficult and pension asset management turned into a loss-maker. Until 1996, accumulated assets of EPFs were evaluated at book value. In the presence of low returns, only latent losses accumulated,

which did not 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*, June 16, 2003).

Under a changing economic reality created by the Big Bang, Japanese companies were desperate to find a way to reduce costs and an ever-expanding wage bill (only heightened by the aging workforce), but they found no available option with which 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."²⁰ Indeed, an annual survey compiled by the Keidanren 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 during the 25-year period at the five percent level.²¹ Japanese corporate actors pressured Tokyo and lobbied the politicians for a way out.

An explanation of paternalistic Japan does not flush out the economic reality of EPF dissolution and pension benefit reduction. If paternalistic Japanese companies were not resisting DC legislature, but driving it, then what explains the observed response? To provide a clue, I turn next to a brief discussion on the rationale for corporate pensions and the trends of DC proliferation in other countries before turning to the unique form of DC plans in Japan.

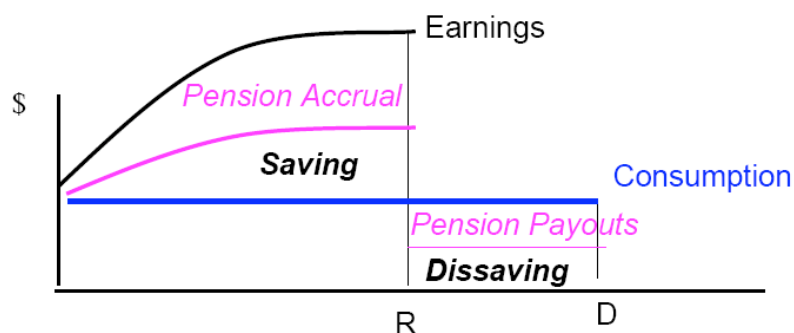
²⁰ Based on personal discussions at Keidanren, August 12-13, 2003.

²¹ Source: "Heisei 11 nendo fukuri kouseihi chousa kekka houkoku" (transl. "FY99 Report of survey results on welfare benefits"), Keidanren (February 2001).

Role of Corporate Pensions

Olivia Mitchell, Executive Director of the Pension Research Council, Wharton School, defines the role of (corporate) pensions as two-fold: (i) the accrual of retirement asset while working and (ii) a mechanism to draw down the asset when retired in an orderly fashion (see **Figure 3-1**).²²

Figure 3-1: Fundamental Role of Pensions²³



The motivation from a company's perspective is equally important since the provision of pensions in most countries is typically voluntary and viewed by the company as additional compensation expense. The company's incentive to provide this benefit can be broken down into three distinct motivations: (i) a means of tax-deferred compensation; (ii) a mechanism to attract and retain employees; and (iii) in some cases, a mechanism to induce retirement (ibid).

A tax-deferred structure means that the contribution to the plan can accumulate tax-free until retirement. For the employee, this is an advantage because, at the least, the tax owed on the eventual benefit is deferred until retirement so the employee enjoys the time value of money. For most employees, though, there is an added advantage associated with this tax deferral since they expect to fall into a lower tax bracket upon retirement, resulting in the

²² From INSR 205-805 Lecture, "Pensions and Retirement Risk." University of Pennsylvania/Wharton (26 November 2003).

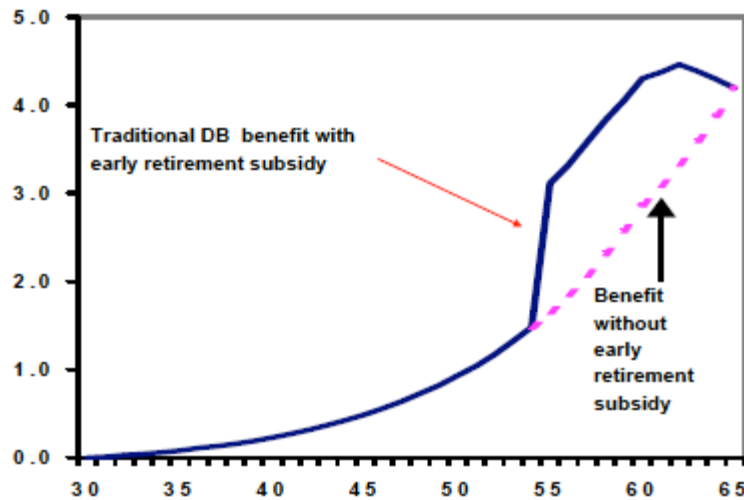
²³ Note: In this figure, 'R' and 'D' stand for "Retirement" and "Death", respectively.

lighter tax treatment of such benefits. Employers can deduct contributions (up to a limit for some plans) as a taxable expense and employees are not taxed on contributions either. Investment earnings are tax-deferred, but in Japan, a Special Corporate Tax of 1.173 percent applies to the plan's asset balances regardless of whether investment gains or losses were recorded. Due to the adverse investment environment in Japan, the government suspended the Special Corporate Tax until March 31, 2003. When Japanese employees receive their benefits upon retirement, benefits are taxable, but they are also eligible for certain deductions.

To attract and retain employees, pension plan design can incorporate backloading, eligibility, and vesting clauses. For Japanese companies with lifetime employment and seniority-based compensation practices, the wage trajectory often steepens in the employee's later years of service as the employee reaches retirement age. The accumulation of employees' pension assets tends to mirror the wage slope since it is often tied to the wage level. This is called "backloading" since, by leaving the company early, the employee would forgo more than a proportional amount of his or her lifetime retirement benefits. Vesting and eligibility clauses also reward employees with longer horizons. In Japan, the vesting period is three years, meaning that after three years of service, employees are entitled to some benefits.

Finally, early retirement subsidies may be used to induce retirement. Such subsidies can be designed to give maximum benefits to employees that leave at a "preferred" age, structuring the present value of benefits to fall thereafter (see **Figure 3-2**). In Japan, this feature would serve to further accentuate the wage-accumulated benefit relation.

Figure 3-2: Inducing Early Retirement²⁴



Global Trends

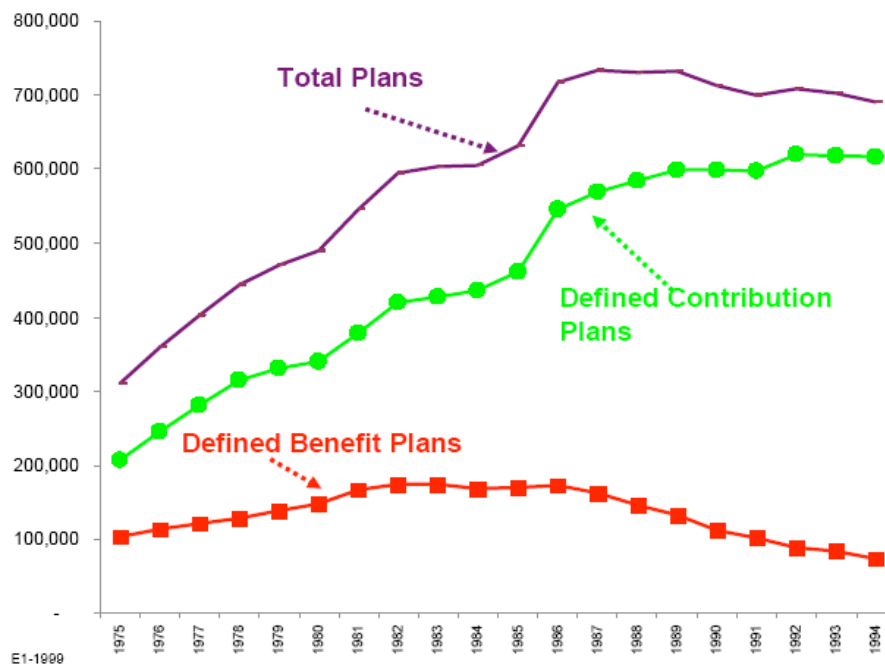
Around the world, two basic models of corporate pension plans are seen emerging: defined benefit (DB) and defined contribution (DC). With a DB plan, the benefit formula is specified (e.g., $x\% \times \text{Final Pay} \times \text{Years Service}$), while a DC plan specifies the contribution amount (e.g., $x\% \times \text{Current Pay}$). Key differences between the two models include funding and investment risk. Unlike DB plans, DC plans are fully-funded by definition (i.e., asset = liability). To make this possible, DC plans place the entire investment risk on the employee whereas employers shoulder the risk in DB plans. In the middle are so-called hybrid plans, such as cash balance plans, that have arisen to split the investment and funding risks between employer and employee.

The introduction of DC plans has occurred in over 35 countries. Those that currently offer DC plans include Australia, Brazil, Canada, Germany, Hungary, Ireland, Japan, Netherlands, Spain, Switzerland, the UK, and the U.S. DC plans were first introduced in the U.S. in the late 1970s. As **Figure 3-3** shows, DC plans have steadily grown at the direct decline of DB plans since the mid 1980s. DC proliferation in the U.S. is widely

²⁴ Source: Clark and Schreiber 2000.

attributed to any (or all) of the following factors: sense of ‘ownership’ by employees, heightened transparency of benefits, matching (employer-employee) contributions, portability of benefits at job change, increased predictability of pension costs for employer, removal of funding risk from company’s balance sheet, and strong equity markets.

Figure 3-3: Changing U.S. Pension Market Share²⁵



Fidelity Investments extends DC-related services to over 9,000 companies and 9.4 million employees worldwide.²⁶ Roger Servison of Fidelity connects DC acceptance in a particular country with two key variables: nontaxable contribution limits and investment education.²⁷ Canada and the U.K. provide examples of countries with DC markets small relative to the U.S., but flourishing thanks in large part to generous contribution limits. When asked

²⁵ Source: PWBA 5500 Bulletin, 1999.

²⁶ Source: www.fidelity.co.jp.

²⁷ Based on personal interview, September 26, 2003.

which country Japan most resembles, Servison replies immediately, ‘Germany’. Germany and Japan not only share similar economic triumphs during their heyday as manufacturing superpowers, but today face similar economic woes, such as high unemployment, aging demographics, a large pension underfunding problem, and political deadlock.

The overwhelming majority of occupational pension plans in Germany are on a DB basis, although there is a growing interest in the establishment of DC arrangements. Servison suspects that one key difference between the two countries in terms of DC proliferation will be the level of investment education required. Germany has more “savvy” investors, indicated by the over 20 percent of the country's saving invested in the markets, which contrasts starkly to Japan's six percent.

As Clark and Mitchell (2002) point out:

On the surface, it may appear that the key factors that have spurred growth in the U.S. cash-balance and DC arena over the last decade are not central to Japanese conditions today. Labor demand is far from robust, workers still do not change employers very frequently, traditional DB plans are underfunded, asset returns are low, and the new DC pensions do not have a particularly favorable tax environment (24).

Structural Flaws to Blame

Under Japan's DC law, the maximum annual contribution limit is ¥432,000 (approximately \$4,000) per employee for companies that do not have alternative pension systems and ¥216,000 (approximately \$2,000) for those that do.²⁸ The DC legislation stipulates against early withdrawals from employees before they reach the age of 60, prohibits employee contributions, and, from 2003, has promised to impose a capital gains tax of around one percent on contributions. In contrast, the U.S. 401(k) defined-contribution system is based on employee contributions that can be matched by the employer, and a generous maximum annual contribution limit of \$10,000 per person that will be raised incrementally to \$15,000 over the next several years.

²⁸ Based on January 2004 levels (approx \$1 = ¥106.2).

When asked if contribution limits matter, Kuniya Tsubota of IBM said “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.”²⁹ Both IBM and Hitachi described the difficulties in designing a plan while awaiting the final version of the law. (Further discussion of the strategies and experiences at IBM Japan, Hitachi, and other companies can be found in the **Appendix**.)

Recession (Bear Market) Psyche

Japan’s economic woes have only complicated the matter. At a recent conference, Kathy Matsui describes her tenure at Goldman Sachs (Japan):

I have had the pleasure, struggle, of covering the Japanese stock market as a strategist, basically since the Nikkei peaked at 38,915. So, as you can imagine, I have had 13 long years to analyze what I think are the roots of everything ranging from low ROEs, to deflation, and to the non-performing loan problem.³⁰

Nearly a decade after Matsui began her job, the Nikkei dipped below 13,000 in October 1998, which signaled to many observers the all-time low of Japan’s stock market. Yet, the bear market persisted and hovered near the 7,500 level as recently as spring 2003.

A prolonged bear market has consequences, explains Ted Krum of Northern Trust:

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.³¹

The harsh reality of the recession has hit wages, too, and helps to explain why pension change and even benefit reduction have not encountered significant opposition. In many

²⁹ Based on personal interview, July 2, 2003.

³⁰ Based on comments made at the “Corporate Governance in the New Japan,” Japan Society of Northern California Conference, November 3, 2003.

³¹ Based on personal discussions, October 4, 2003, and shared research.

ways, it runs akin to any country where employees' fear over losing employment precludes a resistance to wage or benefit deterioration. Nevertheless, resistance to pension cuts appears as an international phenomenon.

Union Threat: fact or fiction?

In Western Europe, countries like Italy, France, and Germany have all proposed or implemented cutbacks to their state pension programs. For these countries, pension reform is one of the most explosive domestic issues and a source of citizen unrest when faced with the prospect of "diminished entitlements" (*New York Times*, 25 October 2003). In Italy, strikes paralyzed the nation in response to a proposal that would increase the country's retirement age. Italy's three largest labor unions urged hundreds of thousands of workers to stay away from work and participate in demonstrations (*ibid*). In France, the government's campaign to push through pension reform set off a series of strikes, disrupted schools and hospitals, halted newspaper and mail delivery, and temporarily shut down the nation's transit system (*New York Times*, 24 July 2003).

Many observers wonder why Japanese unions (and perhaps the citizens) have not been more vocal or demanding regarding pension reform. Large Japanese firms have long been viewed as the providers of social welfare for workers similar to their counterparts in Europe. Although cooperation rather than contention has characterized postwar labor-management relations in Japan historically, union opposition was one concern for the DC legislation and became a scapegoat for the government to impose low contribution limits. Officials from Japan's largest union group, *Rengo* (the Japanese Trade Union Confederation) argued their concern and cited union strife as a major impediment to DC proliferation. Despite this, we hear very few stories 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 the

contribution caps, few companies have converted their entire pension plan into a DC one. Those which have are predominantly SMEs and companies without pre-existing plans.

Employment and HR Reform

*“Corporate pensions represent just one part of an overall HR Strategy.”*³²

Tsubota Kuniya, Director of Total Compensation, IBM Asia

For those Japanese companies taking the plunge with corporate pension reform in either a new DC plan or a cash balance plan, the decision was not perceived in isolation, but typically as a series of decisions stemming from a revision of the company’s overall compensation and employee evaluation system.□In this context, pension reform remained the final step of a transition from lifetime employment to pay-for-performance.

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”. At this point, many Japanese companies began introducing a pay-for-performance component to their traditional severance pay or DB pension plans with a “point system” to reward employees’ performance. If the lump-sum severance pay plan served as the ‘cornerstone of the lifetime employment system’, then these new point systems should be viewed as the first phase of DC plan introduction in Japan (Fujiwara 2002, 3).

³² Based on personal interview, July 2, 2003.

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).”

Kiyoaki Fujiwara, *Keidanren*

The pension story of Japan commonly starts with the first formal legislated corporate pension plan introduced in 1968. However, Fujiwara recounts how the issuance of retirement allowances under this notion of ‘otsukaresama deshita’ (thank you for your hard work) dates back to the Edo period (1603-1867). Indeed, this established the tradition of severance or lump-sum retirement allowances in Japan. Usuki (2003) writes:

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 (2).

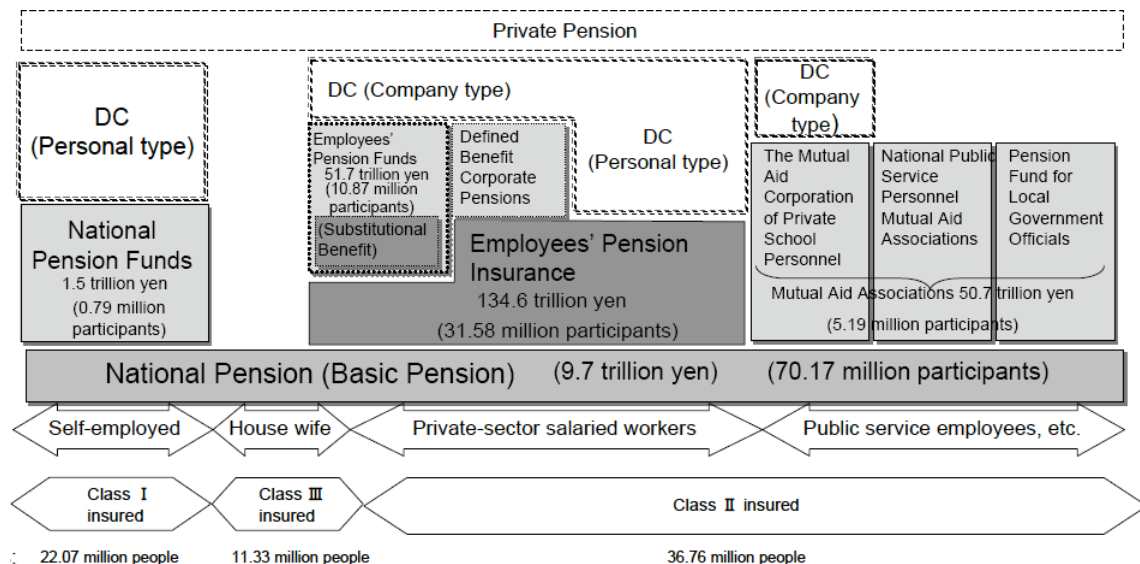
A shortage of labor during the Second World War and the establishment of a public pension with the Workers Pension Insurance (1942) and its successor, Employee Pension Insurance (1944), effectively eliminated the need for separate retirement benefits provided by the employer.

During the postwar period, inflationary pressures reduced the adequacy of the benefits paid under the Employee Pension Insurance (EPI), which prompted many companies to introduce new retirement benefits. According to a study by the MoHLW, 97 percent of businesses with 500 employees or more, and 60 to 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 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.

Meanwhile, in 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 (to 10,000 yen per month). Along with this benefit increase, though, came an increase in social security taxes for employers, and a growing disparity between the TQPPs on the one hand and lump-sum severance allowances and the EPI on the other. 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 that legislation, Japan’s pension system of public and private benefits was born. (Figure 3-4 shows the current structure.)

Figure 3-4: Structure of the Japanese Pension System³³



Nonetheless, the new accounting standards introduced in fiscal 2000 forced at least one aspect of retirement benefits to become treated as deferred wages. With the net present value of future retirement liabilities now recorded on corporate balance sheets, Japanese

³³ Note: number of participants and reserves are as of March 2002. Source: MoHLW. Drawn by Institute of Pension Research, Nikko Financial Intelligence, Inc.

corporate actors are more apt to view their corporate pensions strategically, especially as these liabilities prove capable of impacting their balance sheets so profoundly.□

Since companies appear to be acting fairly consistently with profit- or utility-maximizing objectives within the constraints imposed by the law, what matters then is the form of the law and analyzing how it came into existence. 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), within a veto player framework.

Section IV

TOWARD DC LEGISLATION IN JAPAN³⁴

“It is the constellation of veto players that best captures policy stability, and it is policy stability that affects a series of other policy and institutional characteristics.”

George Tsebelis (2002, 5)

‘Veto Players’ Framework

Since I seek to analyze the events leading up to a known policy outcome, I chose a *consequential* framework that begins with the policy outcome and sets out to uncover the institutions and forces that produced it. Tsebelis describes how every political system has a ‘configuration of veto players’ and how the characteristics of these veto players impact the outcome (2002, 2). Certain veto players (“agenda setters”) impose significant control over the policies that replace the status quo. A focus on the status quo rather than a “policy equilibrium” attaches a more realistic lens to the framework, while sticking to the assumption that no rational player would freely choose or accept any outcome that is not preferred over the status quo (Tsebelis 2002). Through an understanding of the preferences of veto players, the position of the status quo, and the identity of the agenda setter, we can become better predictors of the outcomes of the policymaking process (ibid).

Tsebelis (2002) defines veto players as “individual or collective actors whose agreement is necessary for a change of the status quo” (19). Since a change in the status quo requires an unanimous decision among all veto players, “...the potential for policy change decreases with the number of veto players, the lack of congruence (dissimilarity of policy positions among veto players), and the cohesion (similarity of policy positions among the constituent units of each veto player)” (Tsebelis 1995, 1). Each veto player is assumed to have an ideal

³⁴ This section owes much to NPO Institute for DC Pension Plan Investment Education of Japan, ed. (2003)’s *Nihon-ban 401k Hakusho 2003* (2003 White Paper on Japan 401k).

point and circular indifference points around this ideal point.³⁵ Simply put, the more veto players and the more differences within and among them, the more difficult it may be to effect policy change (or introduce new legislation). However, an “absorption rule” says, “if some of the veto players are located in the unanimity core of the others, they can be eliminated” (Tsebelis 2002, 80). In other words, veto players can be seemingly inactive at times when they are in agreement with other veto players, and we can discount their veto power.

In a modification of Tsebelis’ framework, Tiberghien (2003) introduces ‘quasi’ veto players which he defines as “key players in the reform process who can be formally overruled some of the time, but only at a very high cost and a limited number of times” (15). Without formal veto power, they nonetheless influence the legislative process and provoke consideration by formal veto players in much the way game theory suggests in a multi-period game.

Legislative Process

To break the status quo, a set of actors provokes the first incentive for change. Their preferences may be further amplified or defended by individual entrepreneurs, academics, or members of the media, but these actors are, nonetheless, acting on their own agendas.

For a complex issue like pensions, the next step invariably involves the bureaucracy. As Tiberghien (2003) explains:

Structural reforms are by nature technical, complex, and interactive. A large staff with technical knowledge is required to even sketch effective structural reforms. Without any input or active participation from the economic bureaucracy, the process is unlikely to proceed smoothly (13).

In the final stage, the Cabinet formally presents the bill to the parliament and the parliament votes on it. With a few exceptions, the Cabinet and the Legislature tend to be relatively

³⁵ see Tsebelis 1995 and 2002: Chapter 1.

fused in parliamentary systems such as Japan's. Most often, bureaucrats present legislative proposals to the cabinet, which then introduces them as draft legislation in the Diet. Once received, however, the Diet is technically free to change or reject the proposal as it pleases, so therefore has the potential to be a veto player, albeit infrequently. In the Japanese case, the LDP's PARC (Policy Area Research Council) comprises an additional veto player, situated on the proposal flow chart between the bureaucrats and the Cabinet. PARC divisions within the LDP have existed since around the time that the Liberal and Democratic Parties merged in 1955, and function solely as manifestations of the LDP's interests. McCubbins and Noble describe "nested veto gates" in which the majority party or its agents establish incentives that profoundly affect the choices made by the PARC "subgovernments" (1995, 530).

At each step, various other groups intervene and express their preferences, particularly at the legislative stage. In particular, the legislation surrounding a ministry or agency often mandates the formation of one or more *shingikai* (deliberative committees), and still more are formed on an ad hoc basis. Though not legally binding, their reports guide the work of both bureaucrats and politicians. In some cases, rival *shingikai* compete to influence the ministries they serve. But, as McCubbins and Noble (1995) clarify:

‘Shingikai’ are not intended as democratic clones of the legislature; rather, they give groups that are both interested and important to the LDP an opportunity to provide information, make suggestions, and monitor the policies coming out of the bureaucracy. Information and feedback, in turn, allow politicians to guide the bureaucracy to benefit their important constituents... (533)

Toward DC Legislation

With this particular piece of legislation, two sets of actors appeared independently to initiate the discussion: Prime Minister Ryutaro Hashimoto and Japanese corporations. Sources within the MoF, the MoHLW,³⁶ and the Keidanren concur that the Hashimoto

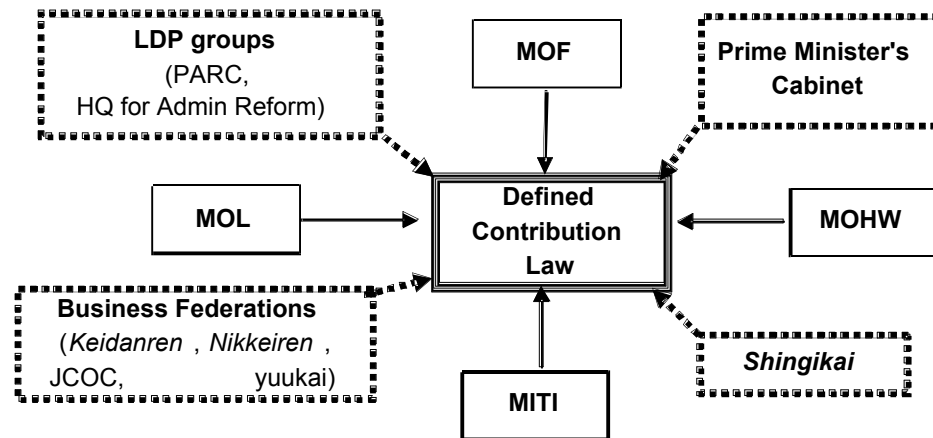
³⁶ In 2001, the Health and Welfare Ministry (MoHW) and the Labor Ministry (MoL) were combined into the Health, Labor, and Welfare Ministry (MoHLW).

cabinet became interested in DC legislation primarily as a way to prop up the stock market. On the other hand, 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.

The Hashimoto cabinet and Japanese corporations evolved into their roles as quasi-veto players. The influence of the cabinet office became less relevant (and therefore “absorbed”) after the Prime Minister’s agenda was set. However, since cabinets leave an undeniable imprint on the reform agenda, it is necessary to monitor cabinet dynamics and the ascension of new prime ministers for their respective policy initiatives and emphasis. 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*),³⁷ while not having a formal veto over policy processes, could impose political costs on elected officials that ignored their preferences. **Figure 4-1** offers a rendition of the emergence of veto players on this piece of legislation.

³⁷ In May 2002, by an amalgamation of the Keidanren (Japan Federation of Economic Organizations) and Nikkeiren (Japan Federation of Employers' Associations), the Nippon Keidanren (Japan Business Federation) was born.

Figure 4-1: Veto Players



1997: the conception of defined contribution

In March 1997, discussion and debate over corporate pension reform began within the ruling party, the Liberal Democratic Party (LDP). The LDP has dominated the political scene in Japan since the end of World War II with an uninterrupted majority from 1955 until 1993. After the lower house passed a non-confidence motion in 1993, the LDP scurried to regain its power the following year. 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.³⁸

For others, the impact from the loss of single-party rule in 1993 and the emergence of large-scale policy failures and scandals in the bureaucracy during the 1990s is undeniable. New single-member districts born out of the Lower House electoral reforms of 1994 further served to alter the electoral incentives of politicians.

³⁸ see Curtis 2002, Vogel 1994.

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 calls ‘informal bargaining process,’ others may call the ‘old style’ of Japanese politics, and it is what Aoki (1988) coined as ‘bureaupluralism’. Aoki purports that, 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 PARC. Toya argues 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.

In 1997, the LDP's Headquarters for the Promotion of Administrative Reform set out to investigate pension regulation and comprehensive pension reform measures under an initiative called, “Important Points of Deregulation Promotion” (transl). This group functioned as a gathering of all cabinet ministers for the discussion of issues related to administrative reform. Yoshihara (2000) sheds light on the political atmosphere at hand: “as a result of the intensifying discussion on administrative reform, even the ministries that had traditionally enjoyed a stable juris faced the need to evaluate their existence” (152). In 1997, the Headquarters for the Promotion of Administrative Reform examined the U.S.’ Employee Retirement Income Security Act of 1974 (ERISA), which established the clarification of fiduciary duty and the protection of beneficiary rights in the U.S. At this

juncture, the ruling party and the government emphasized the importance of investigating the position of DC plans within the public pension system structure.

For this piece of legislation, the bureaucracy comprised several distinct quasi-veto players since the proposed reform interfered with the jurisdiction of more than one ministry. Indeed, 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. The absence of a bureaucratic blessing typically signaled the “end” for reform proposals, leading Tiberghien to conclude that “having the economic bureaucracy on board is a condition for successful reforms” (2003, 15). Given the importance of consensus from this group of quasi-veto players, I purport that the bureaucracy as a whole represents an additional veto point.

In September 1997, the Keidanren issued a publication titled, “Aspiring for Deregulation System Provisions for the 21st Century,” which called for free system design, the removal of disparities within the current system, and individual accounts. Individual accounts, later exemplified by the establishment of DC plans, were seen as a measure to secure portability, encourage citizens’ “self-help”, and provide the necessary enrichment of private pension schemes. From outside the LDP, political forces merged into a nonpartisan Diet group, created to consider the structural change of the nation’s pension system. The 45-member group named itself the “Japanese 401(k) Plan Research Parliamentary Alliance” (transl). This specific reference to U.S. 401(k) plans reveals the significant influence exerted (at least initially) by the version of DC plans adopted in the U.S.

In December 1997, a subcommittee was formed from within the LDP’s PARC to examine contribution-based schemes. Also in December, the Keidanren issued a statement that called for “drastic reform” and mentioned DC plans specifically. While favoring the

expansion of corporate pension design choice, the business federation warned that DC plans would require certain minimum rules, such as taxation support policies.

1998: steady progress

In February 1998, the LDP unveiled its “Emergency Citizen Economic Countermeasure,” which introduced DC plans as the “Japanese version of the U.S. 401(k) pension plan” and proposed a structure surrounding the investment management of these plans. In the following month, the Hashimoto Cabinet announced its “three-year deregulation plan”, in which it set out to resolve DC plans during fiscal 1999.

In May 1998, the LDP suffered a stunning loss in the Upper House election, setting in motion Hashimoto’s resignation that summer. Obuchi assumed the front post of the LDP as Prime Minister in July 1998. That same month, the Keidanren issued a proclamation that emphasized the importance of restoring confidence in the public pension system through greater choice in private pension plans and the prompt introduction of DC plans. While framing its message differently (restore confidence in public pension system), the Keidanren's end recommendation remained on target: more corporate pension choice for Japanese managers through a speedy introduction of DC plans.

By September, the LDP’s Pension System Investigating Committee had formed a subcommittee on private pension plans in apparent response to the Keidanren’s report. The initiative presented by the Keidanren appeared to resonate a consensus within the LDP – at least at the subcommittee level. The LDP subcommittee endorsed the Keidanren's rationale for promoting a speedy introduction of DC plans, and added that a side-benefit of this initiative would be to increase stock market participation among Japanese individuals.

October 1998 was an important month in the legislative debate on DC plans. First, the pension deliberative council within the Health and Welfare Minister’s advisory organization issued an opinion paper, which set in motion plans for finalizing and

submitting a bill during the fiscal 1999 (regular) Diet session. The MoHW's opinion paper promoted a recognition of DC plan introduction within the context of "self-choice" and "self-help" initiatives, benefit design choice, and labor-management consensus. The MoHW pledged its support for DC plans and established a concrete timetable for DC bill submission. The Ministry also drew attention to the issue of labor-management consensus when crafting DC plans and benefit designs. Second, the LDP established a private pension subcommittee headed up by Yuji Tsushima (future Health and Welfare Minister) and Jinen Nagase, to examine tax system revisions within the context of a unified system plan. The LDP appeared focused on the entirety of the pension system (public and private components). Meanwhile, the Keidanren called for the establishment of an economic strategy council in its third DC-related proclamation, but remained intent on the passage of this legislation.

The Obuchi cabinet made its own policy imprint during this critical month. On the 20th, the Cabinet took up the issue concretely, describing "free system design" and "revising tax system disparities" as fundamental to deregulation. Just two days prior, the LDP and the Liberal Party had formed a coalition to create a more solid base of support within the government for Prime Minister Obuchi, whose LDP government had suffered from dismal approval ratings. On October 30, the Obuchi administration unveiled its "emergency economic policy" initiatives, which supported an accelerated introduction of DC plans.

In November, the LDP's Pension System Investigating Committee together with the LDP's Private Pension Subcommittee drafted a report on DC plan introduction and submitted a blueprint of the system to the party's Tax System Investigating Committee.

In December, the LDP announced its Tax System Revision Guidelines for fiscal 1999. Left on the table for further discussion, however, were two major issues for corporate pensions and DC plans: (i) securing appropriate taxation from each stage of the pension cycle (i.e.,

contribution collection, asset accumulation, and benefit issuance), and (ii) taxation in relation to savings products. At a meeting of the LDP's Research Committee on the Annuities System, the LDP urged the MoF, MoHW, MITI, and the MoL to devise specific regulations and privileges relating to the planned introduction of DC pension plans by the following June (*Japan Policy & Politics*, 28 December 1998). Within the government, it was thought to be crucial to meet this deadline since without it, the government could not fulfill its intention to allow financial institutions to start marketing DC plans in fiscal 2000. Yet, the release of the LDP's proposed taxation system revisions for fiscal 1999 foreshadowed a brewing controversy on the treatment of DC plans for tax purposes.

The Obuchi administration, inaugurated under an economic revitalization theme, named corporate pension reform (including DC plan introduction) as one of the immediate tasks of the administration to investigate. This analysis portrays the year 1998 as a year of relatively smooth coordination where corporate pension reform and, fundamental to that, DC plans, enjoyed attention within Prime Minister Obuchi's policy platforms on deregulation and aging countermeasures. However, from a broader perspective, 1998 was a year of financial crisis and great political uncertainty within Japan. From the plunge in the Nikkei (stock market), to the Long Term Credit Bank (LTCB), a bank at the center of Japan's postwar industrialization drive, teetering on the brink of collapse, the Japanese economy showed signs of great weakness. External perceptions of Japan's banking sector (in)stability mirrored this as a one percent Japan premium emerged in international markets. Prime Minister Obuchi's grouping of DC plans within broader aging-related counterpolicies created a risk of "crowding out" policy issues in which DC legislature ultimately suffered. Furthermore, the LDP did not hold a majority within the Diet and its relations with MoF had notably worsened. With more pressing matters such as the inception of the Financial Services Agency in June 1998, the focus on pension issues may have been understandably lacking.

Fiscal 1998 was also a disappointing year for many Japanese corporate pension funds, which registered negative yields for the first time. Compared to an average yield of 5.65 percent in fiscal 1997, the Pension Fund Association (PFA) described the investment environment for EPFs as “extremely severe” (*Japan Policy & Politics*, 12 April 1999). With bonds generating low interest rates following the Bank of Japan (BOJ)’s repeated moves to guide interest rates lower and share prices dropping, further deregulation was seen as imperative to provide for increased freedom in investment choice. Another hit to pension funds came in June when the Corporate Accounting Deliberative Council’s opinion paper announced the introduction of new accounting standards for retirement benefits from fiscal 2000.

1999: the year of reform?

With the tax system revisions in hand, the MoHW, MoF, MITI, and MoL formed the “Committee for the Preparation of the Defined Contribution Pension System” in January 1999 to hammer out the details of the system in preparation for its introduction during fiscal 2000. Within the LDP, too, an alliance for the promotion of the DC system introduction was formed.

Heretofore, the corporate pension system in Japan contained independent plans, the Employees Pension Fund (EPF) and the Tax-Qualified Pension Plan (TQPP), which were regulated by different ministries. It became considered necessary to establish a common standard for the future. Therefore, related ministries and government agencies began discussing the formulation of an inclusive guidance on corporate pension (the Basic Law on Corporate Pensions), which appeared to slow down the progress of the DC legislature.

In March, the LDP approved an outline of a pension system reform plan that was mapped out by the MoHW and submitted to the LDP in the month prior. This early approval by the LDP enabled financial institutions to begin marketing DC plans in Japan from fiscal 1999,

instead of fiscal 2000 (as proposed in the original outline). Following the approval from the LDP, the MoHW planned to start discussing the pension reform issue with the Liberal Party (LP), the coalition partner of the LDP (*Japan Policy & Politics*, 8 March 1999). Seeking to revise pension-related laws in fiscal 1999, the MoHW in its outline stipulated (i) a reduction in pensions paid by the state-run employees' pension scheme by 20 percent by fiscal 2025 and (ii) the gradual raising of the eligibility age from 60 to 65 years between fiscal 2013 and 2030 (ibid). The outline also asked the government to increase its subsidies to the basic public pension scheme from one-third to one-half by 2004.

In June, the LDP's private pension subcommittee compiled a report discussing the direction of investigation for the DC system structure. Cooperation between the LDP and the ministries was in the air. In July, the four-ministry commission accepted the LDP's subcommittee report and requested the tax department to use this plan as the basis for tax system revision at the end of August.

The Keidanren re-emerged with an opinion on the proposed tax reform, but this also appeared to be in line with the LDP and the bureaucrats. In its memorandum on the "Tax Reform for Revitalizing the Japanese Economy", the Keidanren restated its request for the swift introduction of DC plans, but emphasized expanded plan choice as a mechanism for securing citizens' post-retirement income. In September, the Keidanren issued an additional proclamation on the fiscal 2000 tax system revision, which explicitly stated its support for the LDP-ministerial framework outlined in the LDP's subcommittee report and set expectations for the tax system revision such that a fiscal 2000 introduction would be feasible.

That fall, the taxation bureau at both the MoF and the Ministry of Home Affairs called a hearing with the related ministries and government agencies. In December, the LDP announced its fiscal 2000 tax system revision guidelines (in which DC-related tax issues

were one of the three pillars of revision), which included an amendment of the tax system to enable the introduction of DC plans. In the same month, the Keidanren called for the option to put back the government portion of the EPF (a.k.a. *daiko henjo*), bringing to the forefront a new item for the reform agenda.

Year 2000: stalled again

After receiving the fiscal 2000 tax system revision, consensus for the details of the DC system and the proposed bill was reached first among the members of the LDP private pension subcommittee and then among the political parties.

In February, the Advisory Council on Social Security issued a report to the Health and Welfare Minister Yuya Niwa that declared a basic agreement with the introduction of a DC pension system, but it enumerated several problems to be solved, including pension-related taxation, losses suffered by existing pension plans, and the transition mechanism for replacing old pension plans with new (DC) ones (*Japan Policy & Politics*, 28 February 2000).

In March, the DC law was submitted to the Diet with an aim to implement new DC plans in January of the following year. However, with the dissolution of the Lower House in June, the DC bill died without deliberation.

That September, the Keidanren pleaded once more for an early stage formation of DC legislation in its fiscal 2001 tax system revision, “Toward Building a Vigorous Economic Society” (transl). Meanwhile, an alliance of the leading Japanese Business Federations, consisting of the Keidanren, the Nikkeiren, the Japan Chamber of Commerce (JCOC), and the Japan Association of Corporate Executives (*Keizai Douyuukai*), staged a general rally on September 14 to appeal directly to influential members within the Diet as well as former Prime Minister Hashimoto, Health and Welfare Minister Yuji Tsushima, Labor Minister Yoshio Yoshikawa, and International Trade and Industry Minister Takeo Hiranuma

(*Nikkeiren Times*, 21 September 2000). Chairman Imai of the Keidanren stressed the importance of facilitating a smooth transition to a new DC pension system for Japanese companies during this period of corporate restructuring, and also pointed out the necessary compatibility of the new pension plans with both the legal and taxation systems. Chairman Okuda of the Nikkeiren described how his organization had been investigating and advocating DC plans since 1995, and had put in place a concrete plan for the government leaders to implement by 1998. Former Prime Minister Hashimoto commended the efforts of this cooperative alliance and voiced his support for the enactment of DC legislation during the next Diet session. Over 600 corporate representatives attended the rally (ibid).

In November, the DC bill was resubmitted to the Diet during its extraordinary session, but it was passed over and pushed off for continued deliberation during the following year's regular session. The Japanese Trade Union Federation, *Rengo*, was said to have been a major driving force in blocking the passage of this bill. *Rengo's* ability to influence the legislative process in this crucial stage illustrates its ability to wield power as a quasi-veto player.

Disappointed by the shelving of the DC bill, the Keidanren called for a public announcement of the system's basic plan in order to elicit public comment and opinion exchange. The League of Business Federations echoed this sentiment, suggesting that, with the additional time, the business federations should clarify as much of the law as possible in order to anticipate and hasten the post-legislative and implementation phase of the DC plans.

2001: at last

In January, the Keidanren reaffirmed its request for corporate pension law. The alliance of the leading Japanese Business Federations issued an opinion paper advocating the prompt formation of both DC and DB pension reform law in the upcoming session of the Diet.

On June 12, 2001, members of the newly-appointed Koizumi cabinet held a meeting with representatives from the 7.61-million-member Rengo and the Nikkeiren to discuss setting up a safety net for employment (*Japan Party & Politics*, 11 June 2001). Chief Cabinet Secretary Fukuda, Minister Hiranuma from METI,³⁹ and HLW Minister Sakaguchi represented the government while Nikkeiren Chairman Okuda and Rengo President Washio rounded out labor interests (*Asian Political News*, 2001 June 18). Also on that day, the House of Representatives approved the bill authorizing DC plans.

On June 22, the DC bill passed both houses after eight days of deliberation.

During the summer months, the government issued a series of proclamations concerning DC law, rules, and operating management orders, as well as associated government and ministerial orders. In September, the Keidanren called for revised taxation policy related to DC plans in its fiscal 2002 tax system revision proclamation, “Aiming for the Realization of Economic Structural Reforms.” In October 2001, the DC law was enforced at last, marking the long-awaited “start” of corporate DC pension plans.⁴⁰

With the events leading up to the enforcement of DC legislation established, the next section sets to the task of highlighting the central themes to the debate, their significance, and how the interaction of the veto players resulted in the observed policy outcome.

³⁹ The Ministry of Economy, Trade and Industry (METI) replaced the Ministry of International Trade and Industry (MITI) during the 2001 reorganization of ministries and agencies.

⁴⁰ Individual DC plans started in January 2002.

Section V

THE DC DEBATE ANALYZED

“[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)

Impure Origins

Kiyoaki Fujiwara of the Keidanren attributes the movement towards DC law as the government’s desire to bail out the ailing securities firms.⁴¹ Since this new 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.

Former Chairman Kato of the Government Tax Investigative Committee writes how the introduction of 401(k) plans in October 2001 became one way to quickly push forth a policy that moved away from the indirect financing slant of a savings promotion policy and towards one that sought capital investment in the stock market (Life Design Research Institute, 11). Furthermore, with a rise in stock prices, the NPL problem could be lessened, helping banks unwind their cross-shareholdings and write off their substandard assets.

Many scholars have pointed to the financial industry as a key driver in Japanese politics. Amyx (2004) paints 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. The “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

⁴¹ From personal discussions, August 13, 2003.

reforms and the 1991–93 financial reforms) (Toya, 3). In recent years, the NPL problem has become so central to Japan’s economic paralysis that its overriding concern becomes understandable.

Tak Wakasugi of the Government Pension Investment Fund (GPIF) recalls that DC plans in Japan did not stem from a typical discussion of post-retirement security or the need to protect beneficiaries, as might be expected based on the precedent set in other countries.⁴² Instead, 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 U.S.-Japan talks, the introduction of 401(k) plans in Japan surfaced as a potential remedy. The U.S. economy and stock market appeared to have been bolstered by the growth of DC plans. From Wakasugi’s perspective, this created a tragic flaw for the eventual form of DC legislation in his country. More importantly, we observe how a variant of *gaiatsu* (foreign pressure) can be framed under the guise of legitimate policy reform to achieve ulterior political objectives. The U.S.-Japan talks served as an opportunity for DC pensions in the face of insufficient policy momentum. Absent intrinsic momentum of its own, the DC proposal 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 toward the speedy introduction of DC plans, which 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. In terms of the DC debate, the move by the Keidanren appeared to have undermined the 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 in what he saw as a weakened say by the Japanese

⁴² From personal discussions, November 4, 2003.

Business Federations in key policy issues such as taxation and the social welfare system (*Japan Policy & Politics*, 23 December 2002). By the end of 2002, the Keidanren announced a reversal of this decision and reinstated a policy of political donations.

Cabinet Disruption within the LDP

Urata (2001) describes the sudden death of Prime Minister Obuchi as the loss of momentum in the DC legislation. On April 2, 2000, Prime Minister Obuchi fell ill and was rushed to a hospital. Obuchi's chief cabinet secretary, Mikio Aoki, was appointed to stand in as acting prime minister when Obuchi's condition deteriorated further. In what appeared to be an instance of backroom factional deal-making, the majority LDP appointed Yoshiro Mori as LDP president, which helped ensure his selection as the next prime minister. Obuchi, having suffered a massive stroke, fell into a coma and died several weeks later. Mori, a LDP veteran 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 DC bill would have made it into law that year. However, Prime Minister Mori made attempts to maintain policy consistency by reappointing the entire Obuchi cabinet. When the bill was re-submitted in the fall of 2000 during the extraordinary session of the Diet, it died again allegedly because of the "shortage of discussion time" (Urata 2001). Yet, ultimately, when the bill is presented, it passes both houses after eight days of deliberation. Four years is 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 a historic move by missing Rengo's May Day rally (which Labor Ministers had attended since 1984), signaling the ill

will between the government and the country's largest union group (*Japan Party & Politics*, 1 May 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) (*Japan Party & Politics*, 5 November 2001). 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 (*Japan Party & Politics*, 20 July 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 (*Japan Party & Politics*, 26 March 2001).

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 (*Japan Party & Politics*, 28 May 2001). 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 (*Japan Party & Politics*, 11 June 2001). 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.

“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-a-vis the public and other private pension (self-employed, government officials, etc.) components.

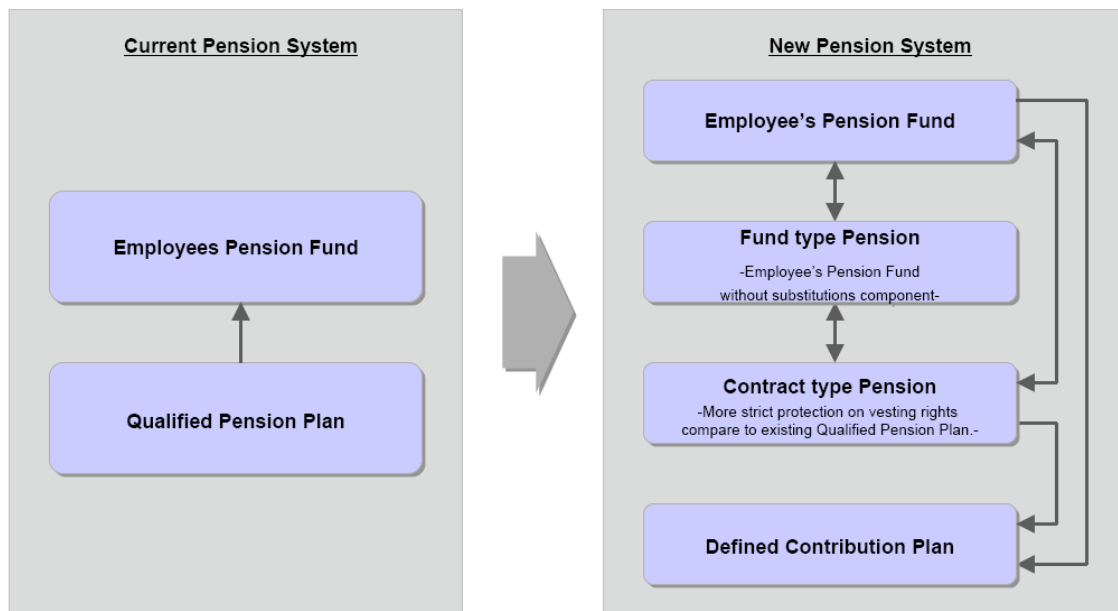
Wakasugi argues that the government (and particularly the MoF) never fully appreciated the different ‘motivations’ for the three types of pensions (individual, corporate, and public).⁴³ In contrast to the individual’s primary objective of saving for retirement, corporations focus on turning a profit and retaining good employees through the provision of tax-advantaged benefits. Public pension plans differ still further 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 is 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.

Tsubono writes how, from the “birth” of the corporate pension system in the 1960s, disparate oversight and regulatory control doomed the system from the start. 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) points out that TQPPs, with their externally accumulated assets, left employees with inadequate protection

⁴³ From personal discussions, November 4, 2003.

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. Pension reform in 2001 and 2002 streamlined the country's existing corporate pension system all under the control of the MoHLW. **Figure 5-1** shows a comparison of the before and after pictures of the two systems.

Figure 5-1: Pension System Revision



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.

Honne (real intention) vs. *Tatema* (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 Yano of the MoF, both rationales contained flaws: greater labor mobility could not be achieved by simply introducing DC legislation since the income-related portion of the public pension was not transferable from EPFs (as of yet); and the shifting of investment risk to employees was complicated by labor negotiations and the perception that DC plans would be rejected by unions.⁴⁴ While both were legitimate reasons, Yano claims that they were not the “driving force” behind the legislation. Instead, he says that 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 considers, a blind deference to the “U.S. are doing it, too” mentality.

Conclusion

Under the long, protracted recession in Japan, corporate pension reform has become a harsh economic reality. Even the most financially stable and paternalistic companies are implementing DC plans. Toyota is one example. Perhaps, paternalism is not *in*-consistent with DC plan adoption, but in fact consistent with it. Cerulli (2003) points to underfunding estimates approaching ¥12 trillion and predicts that “almost every Japanese EBP will report some form of funding crisis” (27). According to a 2003 listing of the Japanese companies⁴⁵ 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*, 16 June 2003). In this light, DC plans provide a way to mitigate pension risks and maintain

⁴⁴ From personal communication, September 25, 2003.

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 defined contribution 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. Disparate veto players competed for a policy outcome that uniquely satisfied their ideological points and preferences. The number of veto players and the differences within and among them created a rift that complicated the formulation of new legislation. 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 veto players drove the legislative process outside the traditional policy path in the case of the DC pension legislation. By appealing to veto players 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, political leadership is far from dead in Japan. On the contrary, it appears to be needed more than ever to coordinate and carry out tough policy initiatives in the face of disparate veto players.

Section VI

IMPLICATIONS FOR THE FUTURE DEBATE

*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.*⁴⁵

Kenneth Pechter (2002)

Not the U.S.

Over the last few decades, the world's leaders have learned that no nation is immune to fiscal deficits, banking problems, or financial crises. Learning through the experiences of other countries has been valuable for policy-makers 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, a country's unique circumstances dictate different policy responses. Yano of the MoF points to the different circumstances surrounding the introduction of DC legislation in Japan compared to those in the U.S.⁴⁶ In the U.S., 401(k) legislation provided a mechanism to stimulate savings. Yano recalls that, ironically, this was approximately the time when American researchers were in Japan studying the Japanese postal system to "figure out" the Japanese savings success.

Pechter (2002) echoes this sentiment when he writes:

⁴⁵ From "Comparative Policy Analysis Under Innovation-Driven Change: Assessment of the University-Industry Linkage in Japan and the United States" Colloquium #10, January 22, 2002.

⁴⁶ Based on personal interview, July 24, 2003.

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.

Not the U.S. II: the Cash Balance solution

Although currently under fire in the U.S., cash balance (CB) plans exemplify a compromise typical of Japan labor relations historically.□The current U.S. controversy should not threaten the continued interest in and the proliferation of these plans. As Kenji Sekine of Towers Perrin remarks, “cash balance plans were built differently in Japan and are not subject to the same conversion ambiguity as they were in the U.S.”⁴⁷ Olivia Mitchell confers:

The main reason that CB plans are in the hot seat (in the U.S.) 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 - they have mandatory retirement ages there and□the government□doesn't seem too concerned about age discrimination.⁴⁸

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.

⁴⁷ Based on personal discussions, August 4, 2003.

⁴⁸ Based on personal discussions, August 9, 2003.

Reforms Trends since Big Bang

Since 1997, Japan has seen its share of reform “clustering.” Tiberghien (2003) points to the surge of reforms early in Hashimoto’s cabinet (1997) and during periods of 1999 of Obuchi’s government (e.g., Fall 1998, Summer-Fall 1999). In contrast, the Mori and early Koizumi governments did not produce much change. This clustering suggests the presence of both a significant push for change as well as strong opposition.

The form of the DC legislation clearly disappointed many corporate actors. Their subsequent hesitance toward adopting DC plans does not reflect paternalism but an unsatisfactory choice. This criticism from the business community seems to have reached the MoLHW where recent lobbying efforts are calling for an increase in the contribution limits (*Nihon Keizai Shimbun*, 8 December 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.

Former Chairman Kato of the Government Tax Investigative Committee contrasts Japan’s current financial woes with those experienced during Japan’s Financial Panic of 1927.⁴⁹ At the beginning of the Showa period (1926-), Prime Minister Hamaguchi attempted to instill financial austerity through the enactment of administrative and financial reform, but the lack of consensus within his cabinet served to frustrate his attempts and prevented him from leading his country out of crisis (Life Design Research Institute, 13). Kato finds a silver lining in the recent reorganization of the Japanese ministries and agencies that occurred in the beginning of 2001, which he purports has served to empower the prime minister’s role while diminishing the importance of consensus within the cabinet (ibid).

⁴⁹ Source: Foreward in *Kigyo Nenkin Hakusho Heisei 14 (2002 Corporate Pension White Paper)*. See Life Design Research Institute (2002).

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 represents 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 are putting the LDP on the defensive.

Nevertheless, the challenge to the leadership of Japan is considerable 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, p. 4).

On the one hand, it appears that issues are reaching a higher level of debate before being vetoed now (rather than failing to pass through the hoops at lower stages). On the other hand, this simple change in the arrangement of actors in the veto player framework will not alone solve the problem of policy coordination in Japan; also of issue is the tremendous debate about what the best route for Japan would be in, for example, pension reform. The optimal reform path is unclear.□ So while the rearrangement of veto players provides some optimism for more positive change, the uncertainty over policy direction is likely to impede the introduction of necessary changes in the legislation. Pension reform is a complex issue and therefore I do not portend that the veto players framework provides a complete explanation.□ However, it does offer insight into the changing power dynamics in the policymaking structure and an understanding of this alerts outside observers of which actors to watch in order to understand when real and meaningful change will emerge.

CASE STUDY: IBM JAPAN

Worldwide

While the history of IBM Japan's pension plan spans 40 years, IBM has gained publicity in Japan for being one of the first to implement both DC and Cash Balance ("CB") plans. In IBM's portfolio of global operations, though, IBM Japan was one of the Company's last subsidiaries to convert from a DB plan to a DC or hybrid (e.g., cash balance) plan. Kathleen Roin, Director of Capital Accumulation & International Benefits for IBM Corporation, explains how a DC or hybrid plan is more consistent with IBM's overarching human resources strategy; what the Company has coined its "capital-accumulative" approach.⁵⁰ This approach draws from the belief that benefits with a higher degree of visibility generate a greater sense of responsibility and ownership among individual employees. While IBM Japan may have been one of *IBM's* last subsidiaries to reform its pension plan to this new standard, this subsidiary is nonetheless considered a pioneer in Japan for its corporate pension plan reform.

IBM Japan: U.S. company or Japanese subsidiary?

Despite its foreign status, the gender and age distribution as well as the average years of service for employees at IBM Japan closely resembles a typical Japanese corporation. At IBM Japan, male employees represent 75-80 percent. The average age of employees is 39 years. While not having lifetime employment per se, roughly 70 to 80 percent of workers join the company after college and stay until retirement. Furthermore, the age profile of employees at IBM is particularly "Japanese" due to the inevitable influence of macroeconomic factors. First, the Oil Shock in the 1970s led to tough economic times and, as a result, IBM Japan's 40 year old cohort is particularly small. Then, hiring increased in

⁵⁰ Based on personal discussions, September 18, 2003.

the 1980s during the bubble economy, so the class of employees currently in their thirties is relatively large. However, when the bubble collapsed and a recession set in during the 1990s, IBM Japan's hiring again shrank and resulted in a relatively small cohort of 20 year old employees today.

Kuniya Tsubota, Director of Total Compensation for IBM Asia, avows that IBM, despite its "foreigner" status in Japan, considers its competition to be the Japanese players such as Sony and Matsushita.⁵¹ Therefore, from employee recruitment to employee retention, Japanese companies are its benchmark. At the same time, as a globally-traded stock sensitive to its pension liabilities and adherence to international accounting standards, pension system change became motivated primarily from practical business concerns, such as reducing pension liabilities and mitigating both interest rate and life expectancy risk.

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. While its preliminary plan 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 legislature. Since Japan's DC and CB plans differ from those in the U.S. and other countries, Tsubota 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. Even now, in Tsubota's eyes, other companies are still choosing to take a wait-and-see approach.

Historical Perspective

Up until 2001, IBM Japan's pension plan was a TQPP and the calculation method for benefits was based solely on age. As in most Japanese companies, the benefit level for employees below 49 years was rather low, and, from the age of 50 until retirement age,

⁵¹ Based on personal discussions, July 2, 2003.

benefits accumulated quite quickly. Due to this accrual method, the age profile and interest rate environment were particularly germane to the level of PBOs at any point in time.

In contrast, the DC/CB structure of the new system flattened the benefit profile. The CB plan is more fair to employees of all ages, since it is correlated to both length of service and wage level, rather than age.

As a predominantly non-union company, one might think that gaining the required (two-thirds) majority would be a major stumbling block or, at least, require significant resources to reach the minds and hearts of IBM Japan's tens of thousands of employees. Thanks to effective HR communication, IBM Japan successfully built consensus and received an overwhelming 90 percent support from its employees. Roin claims that their DC-CB combination was easy to communicate: DC up to the limit, with the remainder into a CB plan.

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 be helping large companies structure a two- or three-tier system (combining DC, DB and/or CB) without much resistance from unions or employees.

IBM Japan was the second company in Japan⁵² to introduce a CB plan. The "palatability" of this type of plan is in its bringing together the best 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.

⁵² Matsushita was the first company to receive approval for a Cash Balance plan.

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.

Plan Design and Challenges

Roin acknowledges the considerable effort to educational issues locally. This may explain the predominance of financial services companies in Japan implementing DC plans, consistent with their pre-existing familiarity with investing. In IBM Japan's case, a highly-educated workforce combined with a mixed U.S.-Japan corporate culture made the transition possible. To tackle the fundamental problem of employees' investment education, IBM Japan took the unique route of using an internet-exclusive tool, called eLearning. While call centers are available to field specific questions from employees, all information and training is performed on the internet.

IBM Japan's Financial Product Menu for the DC portion of its plan consists of 20 different investment choices. Roughly half are principal-guaranteed, while the other half represent investment trusts ("IT"), including equity, foreign assets, and other asset classes. At August 2003, Tsubota reported that employees had elected to invest 60-70 percent of the subsidiary's DC assets in principal-guaranteed products. When asked to comment on the investment mix, Roin said "there is no question" that this is a Japan-specific issue, one which reflects investment inexperience, risk averseness, and a tradition of savings in postal accounts. When provided investment options, Japanese employees were used to seeing, and arguably more comfortable investing in, guaranteed-principal or fixed income products.

With IBM Japan's old DB plan and its current DC plan, employees have the option to receive their benefits in lump-sum or annuity form, and in whatever proportion the employee so chooses. IBM Japan's DC portion is, by design, lump-sum, but the employee has the right to elect lump-sum (at retirement), annuity, or cash (whenever). Tsubota cites a roughly 75-25 split favoring annuities, but acknowledges that the proportion fluctuates to a certain extent with economic conditions.

While IBM Japan's DC plan could be opened with a zero balance, the CB plan contained the present value of the old DB plan. In other words, the conversion to a CB plan does not mean that a company could make its underfunding problem disappear. Roin said that relative to other Japanese companies, IBM's underfunding was small, yet significant enough to require an extraordinary contribution at the time of conversion.

IBM Japan's CB plan promises an above-market rate of interest based on the prior three years' average Japan Government Bond (JGB) plus 0.5 percent. However, the interest credited to the individual employees' accounts is allowed to fluctuate within a range specified by the Company. For IBM, that range was initially set at 4 to 6 percent.⁵³ This means that IBM Japan continues to bear mortality and (some) interest rate uncertainty. The employee has the choice to receive the benefit in lump-sum or annuity form at retirement (never cash). The CB lump-sum is translated into an annuity using a better-than-market rate so Roin thinks employees tend to prefer this option. Under the CB plan, if the employee retires early (voluntarily), the employee receives a lump-sum payment.⁵⁴ If, like most of IBM Japan's employees, the employee reaches retirement age, then the employee qualifies for an annuity with a 15-year guarantee, but has the option to receive 10 percent in lump-sum form.

⁵³ Based on Employee Communication (courtesy of Kuniya Tsubota).

⁵⁴ Unless over 20 years of service has been performed; in which case a term annuity is possible.

Conclusion

Tsubota expresses his wish for the government to raise the DC ceiling further and to allow greater flexibility in CB plans. Tsubota calls the preference for DC plans as purely financial. Since there is no investment risk attached to the company, pension liabilities on the balance sheet could be reduced.⁵⁵ Furthermore, companies can avoid the volatility inherent in DB plans with DC, while reducing it with CB plans.

Although a major global player with experience in both DC and CB plans around the world, Roin described how the structuring of the transition and the interest crediting rate were two places that invoked considerable debate and huge financial consequence. Fortunately, IBM Japan could call on the parent company's actuarial consultants for help with design and conversion issues. IBM clearly leveraged its global and technological expertise to its pension offerings in Japan.

Roin indicated the importance of “comparable companies” – that is, what other Japanese companies were assuming in their pension plans. Roin said that, while the annuity conversion rates of its competitors averaged around 4.5 percent, a company like Nippon Steel had revised its rate downwards from 5.5 percent to 4.1 percent to 2.9 percent. Roin agreed that union-entrenched companies in Japan might have an upper hand in garnering more aggressive reductions in these wage-contracted pension assumptions than in securing union approval for a fundamental change in the system. Indeed, it seems that the experience of unions in wage revisions would lend itself to this type of negotiation over benefit calculations and pension assumptions.

⁵⁵ The only reason liabilities would not be eliminated is to reflect the likelihood of grandfathering accounts in the DB and/or CB plan(s).

Appendix II

CASE STUDY: HITACHI

The GE of Japan

On July 14, 1999, Hitachi, Ltd. (“Hitachi”) announced its plans to establish a wholly-owned investment management company, Hitachi Investment Management, Ltd. (“Hitachi IM”) to manage the pension fund assets of Hitachi and the companies of the Hitachi Group.⁵⁶

For Hiroshi Maruta, President of the new subsidiary, the decision was part of a natural progression towards control over the Company’s two trillion yen of pension assets.⁵⁷ Over the years, Hitachi has taken, what some would call, “aggressive” measures to tackle the pension issue. Indeed, the Company describes its pension plan as “one of management’s most important challenges.”⁵⁸ The first shock to Hitachi’s pension plan was in 1995 when Hitachi made a special contribution of 29 billion yen or approximately US\$280.6 million (at 1995 exchange rates) to cover expected investment loss for fiscal 1995 and 1996. The next shock occurred during fiscal 1998 after which the Company announced it would be lowering its promised rate of return one percent to 4.5 percent. These events served as a wake-up call to Maruta and Hitachi management since it became clear that prior measures were serving as mere band-aids to a larger and growing problem.

Maruta originated in Hitachi’s finance department, but had gained responsibilities overseeing the Company’s pension plans. During this tenure, Maruta traveled to the U.S. and was inspired by what he saw at major U.S. corporations, such as General Electric Company (“GE”) and General Motors Corporation (“GM”). These companies had

⁵⁶ “Hitachi establishes investment management company”, www.hitachi.com (News Release), July 14, 1999.

⁵⁷ Based on personal discussions with Hiroshi Maruta, August 4, 2003.

⁵⁸ “Hitachi establishes investment management company”, www.hitachi.com (News Release), July 14, 1999.

deployed specialized subsidiaries to run their corporate pension funds more efficiently. Maruta thought the idea had considerable merit. He explained that although the Hitachi Group's pension fund appeared healthy on a consolidated basis, the remainder – nearly one-half of the consolidated total – consisted of small-scale plans that racked up considerable costs. By setting up an investment management subsidiary, Hitachi could roll up these individual plans into one consolidated plan. Overall, Maruta hoped to achieve greater efficiency and scale in the administering of the Hitachi and Hitachi Group pension fund. From his perspective, Maruta and his team already were expending considerable resources and effort to get a handle on the investment results and allocation choices – simply to evaluate the outsourced partners. To take on the incremental responsibility of managing the fund single-handedly did not seem insurmountable – especially with the right people.

Aware of the easing of approval requirements for investment management firms under Japan's Big Bang, Maruta seized the opportunity to approach Hitachi management with his idea. Maruta hoped to bring the same type of efficiencies he had seen at GE along with his user perspective of Hitachi's pension system to become a successful manager of Hitachi's pension fund. Soon thereafter, the Company unveiled its new subsidiary (Hitachi IM), charged with managing and mitigating the risks associated with the group's pension assets.

Two Contracts

With only an investment advisory contract, Hitachi IM would have the authority to manage the day-to-day activities of the fund, but not the authority to manage foreign equity, which would spoil Maruta's diversified investment goals. Consequently, Hitachi pushed forward to obtain a license as an Investment Trust, allowing the subsidiary to pool assets for limited clientele on a private subscription basis.

It is important to note that due to its fiduciary duty, Maruta's new investment subsidiary could not force Hitachi Group companies to hand over the investment management of their pension assets. In that sense, President Maruta feels the pressure to run a competitive operation, offer a differentiated product, and provide good service over outside firms.

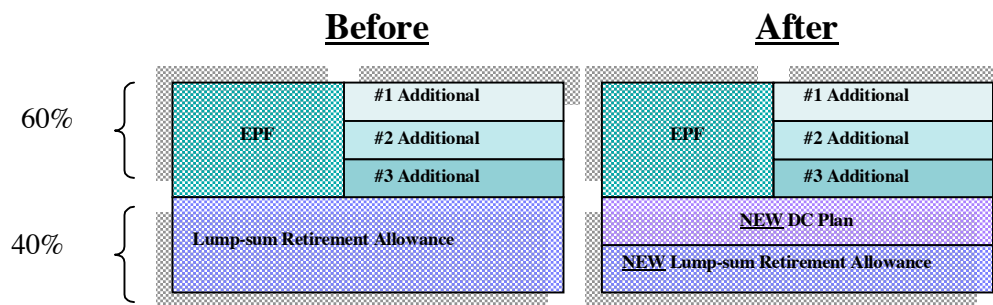
DC Advantage

Hitachi was the one of the first companies to receive approval from the MoHLW to offer a DC plan. In response to this development, Mr. Maruta explained to reporters how a DC plan benefits both the employer and employee (*Yomiuri Shimbun*, 28 January 2000). For employers, the merit is in the attraction of good human capital, while for employee, the benefits arise from being able to secure assets in an individual account and safeguard against the event of a corporate bankruptcy.

Like IBM, Hitachi had taken measures prior to the implementation of a DC plan to convert its compensation scheme to a merit-based one that paid for performance. During fiscal 2000, the Company applied a point system to its retirement allowance and pension benefit calculation. Namely, the points granted to each employee would reflect that employee's individual contribution and performance. In that sense, the introduction of a DC plan would be 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. Furthermore, Hitachi noted the social value from 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. Maruta is quick to point out that, like Tsubota of IBM, he would have opted for greater coverage had the government (and the imposed contribution limits) allowed.

Figure A-1: Introducing a DC Plan to Hitachi's Pension Plan⁵⁹



DC Plan Design and Challenges

One-sixth of Hitachi's total workforce is over the age of 50 years, thereby constituting a major consideration in reform-related policies. Hitachi decided to grandfather those employees, but still allowed them the option to join the DC plan. When 25 percent of eligible employees chose to join, it demonstrated to Hitachi's Labor Policy Chief Mitarai the very entrepreneurial spirit of the Company's employees (Imafuku 2002).

All other employees had the one-time option to join the program or to receive a cash equivalent. Only 10 percent chose the latter, reflecting the tax disadvantages inherent. For those who chose to receive cash, however, likely factors may include their relatively short expected tenure, their frustration towards the paucity of the contribution limits, and the inability to withdraw early without penalty. Mitarai describes how issues related to coverage of dependents (typically full-time housewives) posed the biggest challenge in labor-management negotiations, even though he estimated that the issue only affected 10 percent of Hitachi's workforce (ibid.).

Hitachi incorporated considerable flexibility into its new plan. For example, on the benefit side, employees could choose to receive their DC benefits anytime between the age of 60 and 70 years. At withdrawal, the employee had the option of receiving the benefit in lump-sum or annuity (five-year guarantee) form. Should an employee leave the company prior to

⁵⁹ Source: Hitachi Employee Communication, September 28, 2001 (courtesy of Hiroshi Maruta).

the age of 50, that employee would be eligible to receive the accrued amount in cash (i.e., early withdrawal subject to tax penalty).

For its “menu” of investment products, Hitachi chose eight categories of 20 funds. Mr. Maruta noted the importance of this task since a later revision or replacement of funds would be next to impossible with employee funds invested. Hitachi IM developed balance and index funds that were jointly used for the Company’s remaining DB fund. In adherence with guidelines issued by the MoHLW, Hitachi IM separated its balance fund into tiers of low-, middle-, and high-risk, reflecting the proportion of equity at 30, 50, and 70 percent, respectively. Hitachi IM also provided an active fund, three forms of a mandatory principal-guaranteed product (insurance, fixed term deposit, and high yield), as well as a Hitachi company stock fund. The Company elected to include two publicly-subscribed (externally marketed) funds from Daiwa Sumitomo and Fidelity (one each), which Hitachi described as “clearly distinctive”⁶⁰ in terms of performance.

President Maruta provided a flavor for the election choices of employees and the aggregate asset allocation of the new DC plan.⁶¹ He reported that about half of the assets were invested in investment trusts, a relatively higher proportion than the industry average of 30 percent (Cerulli 2003). Another striking feature about Hitachi’s DC elections is the high proportion in Rodo Kinko (Workers’ Credit Union). Maruta attributes this to the Company’s historic roots in Japan’s Ibaraki prefecture and the ensuing local allegiance to the credit union.

For Hitachi, the investor education aspect was challenging from the perspective of having such a large workforce. Eventually, Hitachi decided on a two-prong strategy, beginning with the distribution of a book titled “Investment Basics” (transl). This manual laid out

⁶⁰ Hitachi Employee Communication, September 28, 2001 (courtesy of Hiroshi Maruta).

⁶¹ Based on personal discussions, August 4, 2003.

fundamental concepts of investing such as risk-return relations and the importance of long-term investing. Next, the Company initiated a more active training segment that began with a firmwide *setsumeikai* (town hall meeting), and proceeded to department-level training to familiarize employees with the Company's "three-in-one" infrastructure of intranet, text, and call center support.

Hitachi's Mitarai enumerates four key problems with Japan's DC system:

- (i) low contribution limits;
- (ii) dependent (housewife) exclusion;
- (iii) no matching provisions; and
- (iv) no recourse (through early withdrawal without penalty) for capital needs of employees under 60.⁶²

⁶² "Ugokidashita nihon-ban 401k" Interview Plan: Professor Imafuku of Japan University, Economics Dept.

Maruta echoes this sentiment and adds to it concern over the high proportion of female employees opting out of the DC plan in favor of receiving cash equivalent (despite the tax disadvantages and post-retirement implications). Maruta also describes the future challenge of getting more of Hitachi Group companies to join the plan. As of August 2003, only five companies out of the universe of 708 Hitachi subsidiaries in Japan had subscribed to the new plan.

Further Reform

Nearly two years later, Hitachi issued a communique to its employees⁶³ regarding the October 2003 introduction of a Cash Balance plan to replace part of the Company's preexisting DB plan. Only a portion would be replaced because of the Company's prior plans to return the substitutional portion of the EPF to the government (so-called "daiko henjo"), which would further streamline its corporate pension system.

The Company presented its rationale as two-fold. First, the pension fund had suffered from three consecutive years of losses as a result of the low-interest environment and depressed stock market in Japan. Secondly, 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 to create a sustainable and safe pension system. This is how the Company presented its CB idea to the labor unions and how both sides steered negotiations toward an amenable solution.

Hitachi illustrates how the CB system is 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 benchmark⁶⁴), it provides Hitachi with flexibility in terms of asset management and macroeconomic fluctuations. Mitigating interest and stock market

⁶³ June 13, 2003 (courtesy of Hiroshi Maruta).

⁶⁴ Hitachi uses the 10-year Japanese Government Bond (JGB) as its benchmark.

movements have benefits to both parties since the reduced risk and volatility allows management to concentrate on its core business and ensure tomorrow's workplace for employees. Employees 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 guarantees a range of returns corresponding to the current investing environment. At Hitachi, the minimum rate of return is set as the higher of 1.5 percent or the lower bound of the government's promised rate of return.

"Inspire the Next"

Looking ahead, Labor Policy Director Mitarai specifies the following areas of concern for Japanese plan sponsors:

- (i) continued deregulation;
- (ii) the reinstatement of the special corporate tax on assets; and
- (iii) greater flexibility still desired in the system (Imafuku 2002).

Maruta adds to this list the underlying importance of the public pension system, and how its reliability and sustainability impact both individual and corporate decision makers.

Hitachi is clearly a forerunner among Japanese companies in terms of the attention and resources it has devoted to pension activities and reform. Maruta refutes the idea that Hitachi is some sort of trend-setter, but does concede that outsiders likely view the Company's moves with a "well, that's Hitachi" mentality. At Hitachi, the company's motto is "Inspire the Next" and it appears that in the pension context, this company is paving the "next" for Japanese corporate pension trends.

A p p e n d i x I I I

CASE STUDY: SKYLARK⁶⁵

No Time for Celebration

Skylark is a Japanese company in the business of operating family restaurants throughout Japan. On December 11, 2001, Skylark became the first company in Japan to receive approval from the MoHLW for a DC plan.

As the Company celebrated its 40th year of operation, it found itself in a bit of a quandry. Like many other Japanese companies, Skylark faced the harsh reality that new accounting standards combined with a lackluster stock market would expose the large gaps in the Company's pension funding status. Skylark's top human resource (HR) executive, Norihiko Oba, cited underfunded liabilities in the neighborhood of four billion yen, or 40 percent, of the Group's 10 billion yen in pension benefit obligations (PBO) at 2000. Arguably more critical for the Company was its labor distribution rate⁶⁶, which had, for the first time in the Company's history, surpassed the 45 percent threshold just a few years prior. Oba describes the strong sense of crisis felt by both labor (unions) and management alike, and the realization that the Company needed to reconfirm its mission and *raison d'être* if it wanted to ensure its viability for the next 40 years.

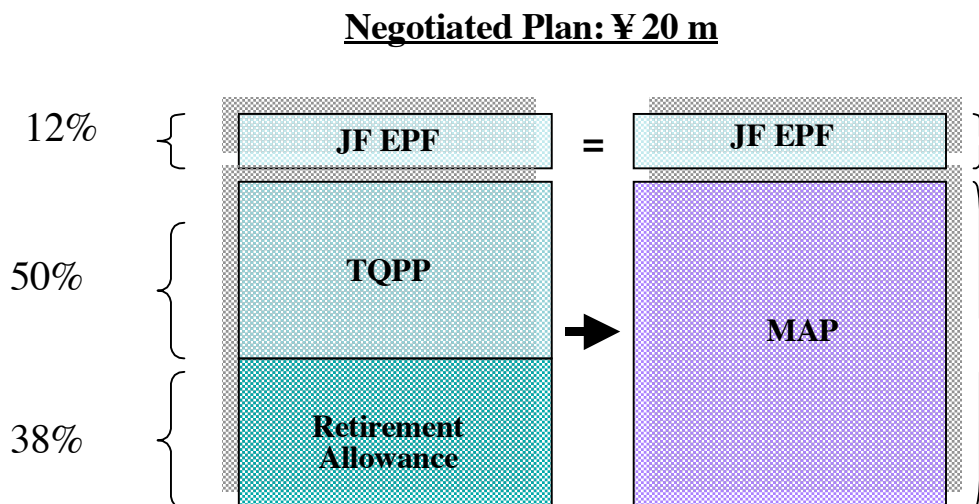
⁶⁵ The facts in this section draw primarily from the interview by Aishi Imafuku: "*Skylark Nenkin Kaikaku: dounyuu made no purosesu to seidoteki kadai no kokufuku* (Skylark's Pension Reform: Overcoming systemic problems and the process until introduction." (see Biblio: Imafuku 2002).

⁶⁶ Labor distribution rate is likened to the profit per worker or other labor utilization rates used in the U.S. Skylark's historic trend showed a rapid escalation from 1988 when the rate was (then) below the 40 percent level.

MAP: My Active Ageing Plan

At the brink of crisis, Skylark unveiled a comprehensive HR reform, titled MAP standing for “My Active ageing Plan” to symbolize the hands-on involvement of employees toward their own retirement. This initiative grew out of a cooperative effort negotiated by labor and management. The central component of this plan is a DC plan, reflecting the Company’s conviction to sever the type of liability in its DB plan that had grown so difficult to control. **Figure A-2** presents the “before and after” picture of Skylark’s pension plan.

Figure A-2: Skylark’s Pension Plan



In total, Skylark offers its employees 20 million yen in pension benefits, assuming 38 years of continuous service. Like many smaller companies, Skylark had joined forces with other players in its industry to gain the scale necessary to participate in an EPF. The MAP sought to alter the components below the food service industry’s “JF EPF”, or 88 percent of the Company’s overall plan. Consistent with the Company’s objective to make DC central to its plan, Skylark decided to convert both DB components (TQPP and the Lump-sum retirement allowance) into a DC plan *despite* the legal contribution limits. In other

words, the overwhelming portion of the MAP exceeds the 216,000 yen contribution limits (roughly 88 percent), characterized as “prepaid” cash, and runs disqualified from the tax advantages associated with the DC system. This diverges from the plans at both Hitachi and IBM, which work around the limitations imposed by the law. Conversely, Skylark’s plan reflects the Company’s intent to convert to a DC plan, no matter what the implications. Like the other cases, though, Skylark’s pension plan revision was part of an overarching personnel system reform.

Personnel Reform Project

During its period of crisis in the early 1990s, Skylark management, working together with union officials, set out to revamp its HR system in a way that would draw out the vitality of both the company and its employees. To underscore its objectives, the Company developed its key concept for personnel epitomized in the phrases: “*kyodo* (cooperation)⁶⁷ *kyosei* (symbiotic)” and “*jishu* (independent) *jiritsu* (self-reliance)”. The Company was one of the first in Japan to truly embrace a performance-based HR system. As a subsystem of the overall system, Skylark’s retirement benefits naturally also became a target for revision. However, at that point in time (1993), discussion of DC plans in Japan was still years away. Lacking a way to apply its meritocracy-based HR system idea to its pension plan, Skylark postponed revisions for the time being. Skylark eventually embarked on a “pension reform project” in 1999 after learning about DC plans from consultants, Nomura-IBJ.

Contemplating DC

Skylark’s decision to embark on pension reform resulted from the basic awareness that the business operating environment had changed. Namely, Oba points to the advent of the following “eras” in Japan: a Bankruptcy era, a Talent Migration era, a Self-responsibility

⁶⁷ Instead of the traditional spelling of cooperation, the Company opted to include the kanji meaning to work.

era, and an International Standard era. In light of these changes, the Company set out to reassemble its structure and function, as well as its organization and personnel. Within that framework emerged the impetus for a DC pension system.

It is important to point out that, as a family restaurant business, Skylark has a younger age distribution of employees (largest cohort of employees is 23 to 28 years) relative to the “average” Japanese company. As a result, the Company did not suffer from the same legacy costs or burden as those companies with a more mature workforce. Skylark’s Oba concedes that this fact made it much easier for the Company to implement such far-reaching changes to its pension system whereas other Japanese companies simply may not have that capacity.

Plan Design and Challenges

For management and union officials alike, the transition issue was of utmost importance. The union side worried that employees might be disadvantaged in the conversion of benefits. Management weighed the choice of conversion methods carefully and considered how best to “level the playing field” and provide a fair and age-neutral calculation. Ultimately, both sides agreed on a present value formula that would straighten out the distortions caused by the seniority-based DB plan.⁶⁸

Reflecting the underlying flexibility of the DC plan, Skylark gave employees the freedom to choose the age at which to start receiving benefits (between 60 and 70 years) and the form of those benefits (lump-sum or annuity). The annuity would carry a five-year guarantee, which was conceived to close the gap between *teinen* (retirement age) and the starting age for public pensions (65 years).

⁶⁸ Skylark chose a three percent discount rate based on the five-year average of the 20-year JGB.

As a first-mover, the Company faced considerable uncertainty over the timing and eventual form of the DC law. To compensate for this, Skylark developed several plans assuming different outcomes. The Company anxiously stood by as the DC law schedule was revised about four times and eventually passed one year later than management expected.

The slow passage of the law meant that Skylark was prepared when the time came to implement its plan swiftly. From 1999, union and company officials accumulated 600 hours in weekly “study” meetings with Nomura-IBJ. In August 2001, a DC committee comprised of the president, HR director, and General Affairs director from each of the Group’s 13 companies began investigating a common system scheme for the Group.

Still, Skylark faced the considerable challenge that a full 90 percent of its employees had never invested in the stock market. In addition, company surveys had shown that a mere five percent of employees understood the old DB plan. Skylark realized training and educating its employees would be a significant undertaking, extending beyond pension asset management to the pension plan itself. Furthermore, as a chain food restaurant business, the Company’s 6,400 employees were dispersed geographically. Management pondered over what type of products to offer in order to balance choice with ease in understanding.

Transforming Employees into Investors

In the year leading up to DC implementation, Skylark began printing a “Life Planning” section in the company newsletter. Articles outlining how to calculate the savings needed for retirement began to create a stir among Skylark’s employees – a considerable feat given Skylark’s younger employee base. Once the outline of the law became public, Skylark distributed two videos direct to the households of each employee: one to explain the content of the DC law and the other to present basics of investing. This method of distribution overcame the problem of a disperse employee base while also enabling

employees to review the material with spouses and dependents in the privacy of their own homes. In addition, Skylark trained 300 managers to serve as sounding posts for their direct reports.

For the investment product offering, Skylark developed its objective with an analogy to the food service industry: *teishoku* or set meal. With the employees' needs in mind, management requested three types of balanced investment trust funds to remove the task of allocation for general categories of risk "appetites". To determine the "magic number" of products to offer, Skylark broached the subject with foreign (U.S.) IT firms since they could draw on experience in the 401-k market. Skylark heard that three to five products would be insufficient for effective diversification, but 15 to 20 ran the risk of bias, higher costs, and indecision among employees. In the end, Skylark settled on 10 products plus the option to invest in the Company's own stock fund.

Conclusion

The form of Japan's DC law diverged from Skylark's expectations in two important ways. The low nontaxable contribution limits compared unfavorably to Skylark's existing plan and punished the Company by offering double the limits to companies without existing plans. In Skylark's case, the clause precluding early withdrawal seemed highly incompatible with the type of employees the Company attracts. On the one hand, many of Skylark employees dream of opening their own restaurant eventually and therefore need more than anything the capital to fulfill this objective. Another large subset of employees, however, move out of the workforce entirely to become mothers and housewives.

The Skylark case is insightful beyond the Company's place in history as the first company in Japan authorized to introduce a DC plan. Skylark resembles many companies in Japan which have faced (or currently face) tough operating decisions since the collapse of the bubble economy. For these companies, the pension issue is the final nail in the coffin,

serving to complicate and cloud a company's reform plan. Many companies in Japan are "paralyzed" by their pensions and face a future of high improbability. For these companies, becoming a multinational success like Hitachi or IBM is the farthest from mind. In this light then, a case like Skylark provides not only hope but an attainable model for success.

Appendix IV

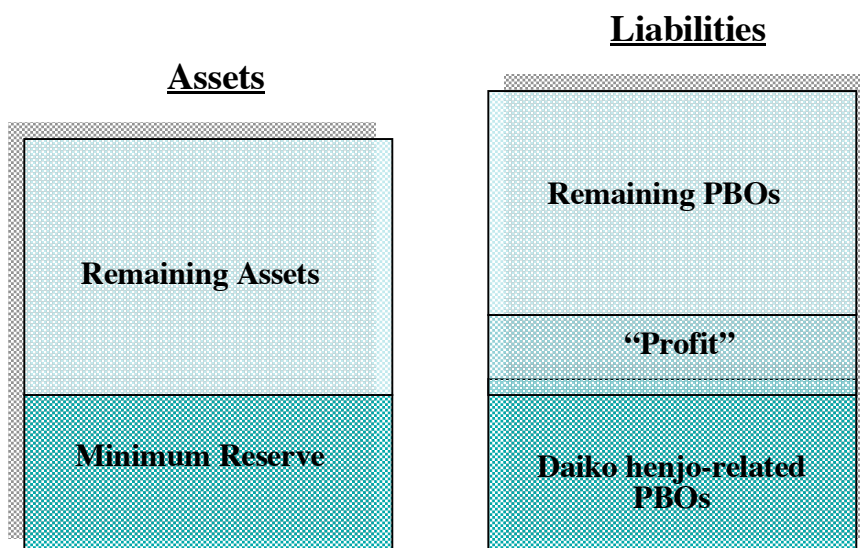
FIVE COMPANIES: FIVE STRATEGIES⁶⁹

Olympus: Downsizing via *daiko henjo*

As of February 1, 2004, 728 EPFs or 42 percent of the total universe of EPFs had received approval from the MoHLW to return the state portion of their pension funds to the government.⁷⁰

Experts predict that the final number will 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 companies are moving PBOs onto their balance sheets. As **Figure A-3** illustrates, many companies can boost their profits in the process.

Figure A-3: Pension Accounting under *Daiko Henjo*



⁶⁹ Except where otherwise noted, this section draws its facts from “Nenkin ga kaisha wo yabusu” (transl. “Pensions will break companies”), *Nikkei Business*, June 16, 2003.

⁷⁰ Source: Institute of Pension Research, Nikko Financial Intelligence, Inc.

Once approved, EPFs are required to return assets, equivalent to the minimum liability reserve, accumulated from pension contributions (and any investment gains) that have been exempt from being paid to the state. For many companies, the assets corresponding to the *daiko henjo*-related PBOs exceed the actual assets required to return, thus creating a one-time gain. The longer-lasting gain, though, is in the permanent removal of this risk and liability, and the ability to decrease future obligations from the company's perspective. Furthermore, since employees are not affected by the transfer, *daiko henjo* becomes an easy measure to implement.

Olympus began its *daiko henjo* last fall. At March 2003, the Company reported PBOs of 96.8 billion yen. Thanks to *daiko henjo*, the Company could decrease its PBO level by 21 billion yen and post a one-time profit of four billion yen. According to Naoki Kamiyama, Equity Strategist of Morgan Stanley Japan, this strategy is a “no-brainer” for most large companies since their EPFs are either single-sponsor (*tandoku-gata*) or group (*rengo-gata*), that is, consisting of related companies only.⁷¹ For smaller companies organized into an industry EPF (*sogo-gata*), *daiko henjo* may be more difficult to implement since it requires coordination and cooperation from the other participating companies. Furthermore, the *sogo* EPFs typically do not carry much above and beyond the government portion, so *daiko henjo* would more than likely mean dissolution of the company's entire pension plan.

Asahi Kasai: Short-term Pain, Long-term Gain

For the fiscal year ended March 2003, Asahi Kasai (“Asahi”) posted a non-recurring write-off of 126 billion yen, reflecting the underfunded portion of its pension plan. Due to the write-off, the Company went from showing an operating profit of 61.5 billion yen to reporting a final loss of 66.8 billion yen. However, the write-off enabled the Company to reorganize internally and set up the new divisions without the legacy costs of the underfunded pension liabilities.

⁷¹ Based on personal discussions, June 30, 2003.

For Asahi's Head of Finance Okada, this represented a "win-win" for investors and the Company alike. Underfunded liabilities, representing 28 percent of shareholder's equity before the write-off, could be reduced to five percent. Like other Japanese companies, Asahi had carried its pension plan off-balance sheet at historic book values. Rather than to bear the year-to-year writedown to earnings as required by mark-to-market accounting, the Company felt it would be better to take care of the issue in one fell swoop since (i) the Company would be better positioned to carry out important organizational changes, and (ii) the Company could reduce the ongoing risk associated with its pension obligations and wipe away the concern that the pension issue could overrun the Company's finances.

Kyocera: Defining the Downside

At the end of 2001, Kyocera chose to invest its entire pension assets (97 billion yen) in a life insurance (commingled) account guaranteeing a paltry 1.5 percent return. In what some may call a "defined loss" strategy, Kyocera strives to minimize the downside by ascertaining its loss position. Once that loss is defined, the Company can then set about the task of securing the assets sufficient to cover its PBOs. To understand this motivation, it is first necessary to acknowledge the investment challenge that EPFs face. Companies define their pension obligations by setting a promised rate of return. If they fail to meet this expectation, they must make up for the shortfall through an additional contribution. Given the recent market conditions in Japan, it has become commonplace to fall short of this expected rate of return. Under these circumstances, Kyocera felt that, rather than investing in higher risk asset class like equity and potentially face a large-scale negative return, it would be better to settle for a more certain, albeit lower, rate of return. In this way, Kyocera can set aside the necessary funds for a more "defined" expenditure. The priority for Kyocera was to remove the risk from the Company's financial statements. In 2001, the Company went from investment returns of (plus) 16.3 percent to negative 7.3 percent. For Kyocera, sound and prudent pension management is the name of their game.

East Japan Stationary Sales: Seeking the Alpha

In contrast to the companies heretofore showcased, East Japan Stationary Sales (“EJSS”) is taking the opposite approach by looking for ways to boost the left-hand side of its balance sheet via alternative investment (“AI”) strategies.

ESJJ’s EPF represents 500 companies, 15,200 subscribers, and 45 billion yen of assets under management. ESJJ began seeking absolute returns via AI strategies in 2001. While today there is an increasing number of pension funds in Japan interested in AI, two or three years ago, ESJJ appeared as an anomaly in this field. Many observers might puzzle over how a seemingly unlikely “bricks and mortar” EPF turned into the forerunner of this movement.

In 1996, a former bureaucrat from the Ministry of Welfare took over as trustee of ESJJ’s EPF. On the one hand, Trustee Sekiyama should have been happy with the news that he had “beat the market” in his first two years at the job, posting positive returns of 2.02 percent and 3.76 percent in 1996 and 1997, respectively. On the other hand, the Fund fell significantly short of 5.5 percent, the promised rate of return. Meeting a constant hurdle rate under fluctuating market conditions made it clear to Trustee Sekiyama that the fund’s investment strategy needed revising. However, finding it difficult to persuade his board of non-(investment) specialists, Sekiyama took it upon himself to investigate ways to improve the fund’s return on investment. Ironically, a negative return of two percent in FY98 significantly helped his cause.

At present (2003), the fund allocates 16.4 percent of its assets to AI with 11 different investment advisors. While failing to achieve its “absolute return” goal of exceeding 10 percent, the positive returns generated by this portion of the fund stands at sharp contrast to the EPF’s overall negative return of 14 percent. At issue, though, is the sustainability of

this approach. Since the fund has to bear the burden filling whatever gap is not met by investment returns, the strategy has its limits.

Recent research by Mark Mason of Columbia Business School points out there is another reason to be nervous about AI strategies (*Financial Times*, 10 March 2004). Mason finds that Japanese pension plans new to AI tend to restrict their investments to one or two strategies, in contrast to U.S. pension funds which spread hedge fund money across several strategies. This increases the risk of the portfolio and makes the fund even more vulnerable to losses.

Fuji Film: Choosing dissolution

Fuji Film (“Fuji”) has chosen the extreme in pension reform: dissolution. Fuji’s decision to take such radical measures is not immediately obvious. Fuji reported FY02 underfunding levels of 36 billion yen and amortization expense of eight billion yen, in comparison to consolidated operating profits of 160.2 billion yen. That is to say, the Company’s underfunding could increase 4.5 times and still be covered its operating profits. Vice President Imai describes how a rapidly changing operating environment has led the Company to contemplate plans of action. In that context, pension dissolution became one obvious countermeasure.

Fuji’s concern over its pension plan as an operational risk can be viewed from three angles. The first angle is the effect of falling discount rates in amplifying the level of underfunding and PBOs. The second angle is a short-term one, which considers how amortization expense related to underfunding cuts away at earnings. The third angle is the long-term, and embraces the Company’s primary concern: its operating environment.

Fuji faces falling profits and sales in its traditional lines of business and an intense battle in the emerging digital market. In order to beat the competition and restore profit levels, Fuji

needs to focus on its core business and eliminate risk in its non-core business. Since the Company's pension plan falls into the latter category, it became a prime target for cuts.

Pension dissolution is a harsh measure with major consequence for employees. However, Vice President Imai explains that the short-term impact of pension-related expense would eventually flow out of employees' wages. Furthermore, Fuji's employees with their keen awareness of the day-to-day battle against a changing marketplace, has translated into an understanding and support for management to make these tough decisions.

A p p e n d i x I V

2003 FIELD RESEARCH

Japan

- June 23: Masaharu Usuki, Executive Research Fellow, NLI Research Institute
June 30: Naoki Kamiyama, Equity Strategist, Morgan Stanley Japan
July 2: Kuniya Tsubota, Director of Total Compensation, IBM Asia
July 3: Kenji Sekine and Haruka Urata⁷², Towers Perrin
July 7: Robert Feldman, Chief Economist, Morgan Stanley Japan
July 8: Brian Henderson, Vice President of Marketing, Fidelity Investments Japan
July 9: Minoru Hatano, Director, Financial/Corporate Sales, Fidelity Brokerage Japan
July 14: Haruo Otsuka, Head of Client Relations, Barclays Global Investors Japan, and
Takenori Hiraguchi, General Manager of Corporate Strategy, Barclays Nikko
July 17: Shunichi Umino, Alternative Investments, Morgan Stanley Japan⁷³
July 24: Tomoyoshi Hirose, Head of Products Planning, Barclays Nikko Global
July 24: Masahiko Furuya, Financial Services Agency, and Koji Yano, Ministry of
Finance
Aug 4: Hiroshi Maruta, President & CEO, Hitachi Investment Management
Aug 12: Hiroyuki Matsui, Deputy Director, National Quality of Life Bureau, *Keidanren*
Aug 13: Kiyooki Fujiwara, Fiscal Policy Group, Economic Policy Bureau, *Keidanren*⁷⁴
Aug 18: Kenji Sekine and Haruka Urata, Towers Perrin (follow-up)
Aug 21: Masaharu Usuki, Executive Research Fellow, NLI Research Institute (follow-
up)

United States

- Apr 28: Yuji Mori, Senior Analyst, Daiwa Institute of Research
May 21: Roger Servison, Managing Director/Executive Vice President, Fidelity
Investments
June 6: Charles Ruffel, Chief Editor, *Plan Sponsor*
Aug 27: Laraine McKinnon, Global Sales & Services Officer, Barclays Global Investors

⁷² Formerly of Nippon Life

⁷³ Formerly of Japan's Pension Fund Association (PFA)

⁷⁴ Former Fellow at the Employee Benefit Research Institute (EBRI), Washington D.C.

- Sept 18: Kathleen Roin, Director of Capital Accumulation & International Benefits, IBM Corporation
- Sept 26: Roger Servison, Managing Director/Executive Vice President, Fidelity Investments (follow-up)
- Oct 2: Elmer Huh, Global Pensions Group, Morgan Stanley
- Oct 4: Ted Krum, Vice President of Investment Research, Northern Trust Global Advisors

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