

Defined-Contribution Pension Market 2009: Key Findings

➤ Research Outline

Yano Research Institute has conducted a study on the defined-contribution pension market in Japan according to the following research outline.

1. Research period: From February to April 2009
2. Research targets:
Major administration companies and employers who have introduced the defined-contribution pension plan
3. Research methodologies:
Face-to-face interviews with relevant personnel by our specialized researchers, interviews via telephone and e-mail and literature researches

<Definition of the defined-contribution pension market in this study>

The defined-contribution pension market includes the defined-contribution pension for both corporate users and individual users.

➤ Key Findings

- ◆ **The market size for the defined-contribution pension recorded 3,665.6 billion yen, and the number of pensioners was 2.95 millions in 2007.**

The total pension assets of the defined-contribution pension market had been steadily expanding owing to the increase of the pension plan members and reached 3,665.6 billion yen in 2007. The number of the pension plan members has also increased, and that in 2007 had grown to 2.95 millions backed by the steady increase of employers who have introduced the defined-contribution pension and consequent increase of the corporate users.

- ◆ **The defined-contribution pension plan has been made more attractive by introduction of the matching contribution and lifting of the ban of raising the maximum amount of nontaxable contribution.**

The raising of the maximum amount of nontaxable contribution and the introduction of the matching contribution will be made possible in January 2010. If the maximum amount is raised, enterprises will be able to design more effective contribution plans, and in addition, the benefit to the plan members is expected to be further enhanced, which will make the defined-contribution pension plan more attractive.

- ◆ **Further expanding defined-contribution plan market**

The defined-contribution plan could be much more attractive in future since flexibility in designing plans will be enhanced due to the expected revision of the law that will allow the matching contribution and the raising of the maximum amount of nontaxable contribution. The market for the defined-contribution plan will be further and largely expanded if the number of employers who introduce the defined-contribution pension is increased, and the number of the plan members is increased accordingly as a result of various positive revisions of pension systems including relaxation of membership requirement that is highly anticipated.

➤ **Report format:**

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➤ **Research Summary**

1. Market overview

1-1. Trends of the defined-contribution pension market

The total pension assets of the defined-contribution pension market had been steadily expanding, thanks to the increase of the pension plan members, and reached 3,665.6 billion yen in 2007. The number of the pension plan members has also increased, and that in 2007 grew to 2.95 millions backed by the steady increase of employers who have introduced the defined-contribution pension plan and consequent increase of the corporate users.

The defined-contribution plan could be much more attractive in future for both employers and employees (plan members) if the flexibility in designing plans is enhanced by raising of the maximum amount of taxable contribution and introduction of the matching contribution that allows additional contribution by employees, and if various revisions of the pension systems including relaxation of the membership requirement are positively implemented.

On the other hand, since the defined-contribution pension cannot be received until the age of sixty, there is a high need for early withdrawal. In order to serve this need, relaxation of the requirement for early withdrawal must be one of the issues to be addressed in future.

1-2. Trends of the defined-contribution pension plan for corporate users

The number of companies that introduce the defined-contribution pension has been increasing since many companies have started to take various actions, such as reduction of the debt for employees' retirement benefits, to hedge management risks due to deterioration of operational environment that stems from economic stagnation. Accordingly, this trend has increased the number of corporate pension members.

The number of corporate members of the defined-contribution pension as of the end of February 2009 was 3.152 millions and the year-on-year ratio of the FY2008 is estimated to be over 120%. The number of the corporate pension members will further grow in future because the convenience of the members may be improved as the flexibility in designing pension plans could be further enhanced by such measures as raising of the maximum amount of nontaxable contribution, introduction of the matching contribution, etc.

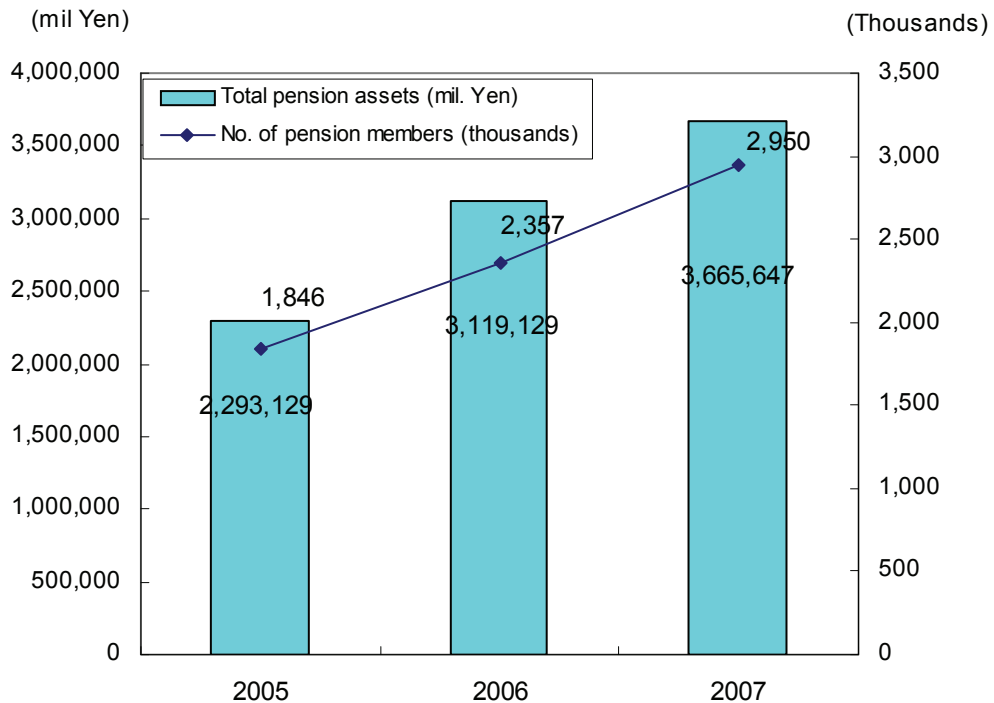
1-3. Trends of the defined-contribution pension plan for individual users

The number of individual members of the defined-contribution pension was continuously increasing and that of as of the end of February 2009 was 233 thousands backed by some factors including the increased number of the transfers from corporate pension plan to individual pension plan. Although the organizations for administration used to intend to mainly increase corporate pension members seeking for economy of scale, there are some signs nowadays that they will focus more on recruiting individual pension members as well as corporate pension members in future.

2. Future Prospect

The debts for employees' retirement benefits of each company could keep rising due to the possible shortfalls of pension fund operation if deterioration of economic environment continues and the low level of asset management yields is protracted. Therefore, the defined-contribution pension should play a major role when the companies try to reduce the debts for retirement benefits and maintain stable management. Furthermore, employers who have introduced the approved retirement pension will have to urgently change their pension plans to new ones as the approved retirement pension is supposed to be abolished in March 2012. The defined-contribution pension should be quite effective plan as a replacement of the approved retirement pension and one of the highly potential candidate plans suitable for the companies that are seeking for a new pension plan.

**Figure 1: Total Assets for the Defined-Contribution Pension/
The number of Pension Members**



Estimated by Yano Research Institute

NOTE 1: The left axis represents the total pension assets and the right axis does the number of pension members