

For Immediate Release**ACCJ Urges Reform of the Defined Contribution Pension System For Japan's Future Retirees**

July 18, 2008 - The American Chamber of Commerce in Japan (ACCJ) today issued a Viewpoint entitled, "Reform Rules for Defined Contribution Pension Plans."

The announcement of the Government of Japan's Basic Policies (*honebuto*) includes recommendations that:

- Allowing employee contributions (matching), and
- Improving the scope and portability of Japan's Defined Contribution (DC) Pension Plans

be reviewed, and a conclusion reached within 2008.

The ACCJ strongly endorses these recommendations and reiterates its suggestions that the Government of Japan reform current DC policies, including to:

1. Increase the limits on tax deductible contributions;
2. Allow employee contributions;
3. Allow withdrawals prior to age 60, under certain conditions;
4. Introduce a DC Pension for public workers.

ACCJ Investment Management Committee Chairman, Mr. David Monroe, emphasized that, "there is a clear need for an active review of the assumptions underlying present replacement rates or workers' current income by pension income."

Current research indicates that many Japanese workers, especially younger workers, are not ready for retirement. An average worker, retiring on a final income of 7 million yen, will retire on annual income of approximately 3.3 million yen. This means that a retiree at 65, will need to survive on a similar salary to workers entering the workforce in their early twenties. This is despite the fact that retirees are likely to face rising healthcare and nursing costs.

Further, this situation is likely to worsen. According to an OECD study published in June 2007, the amount of workers' current income to be

replaced by their retirement income is projected to decline to 34.4% by 2049, this is compared to an OECD average of 58.7%.

The Employees' Pension Law in Japan sets 60% of income prior to retirement as the 'desirable level' for retirement income. Not only is Japan's 'desirable level' below that of the U.S. and U.K. (where replacement rates are 75 – 85% and 67% respectively); it was calculated approximately 40 years ago, when economic fundamentals and costs were far different from now. The ACCJ urges the Government of Japan to review this 40-year-old index to account for the current circumstances of Japan's retirees.

Given the recent negative performance suffered by Defined Benefit (DB) Pensions, the ACCJ strongly believes that personal assets need to play a larger role in helping Japanese workers prepare for retirement. Despite the Government of Japan's stated goal of encouraging a shift from savings to investment, the current restrictions on DC Pensions, compared to other countries' plans, have limited the growth of DC in Japan.

For example, in Japan, the level of tax-deductible DC contributions is far too low to make DC Plans a viable approach to prepare for retirement. Instead, the tax system favors DB pension plans.

Unlike other countries, Japanese workers cannot contribute to their own DC Plans, whereas in the U.S. workers can contribute up to \$15,500 pre-tax and an additional \$5,000 for workers over 50.

In other countries, such as Australia and the U.S., workers can access or borrow against DC assets in certain urgent or hardship circumstances before they reach 60 years. This feature greatly enhances the flexibility of DC Plans and has made them more popular.

In Japan, public employees are not allowed access to workplace DC Pension Plans despite efforts by the Government of Japan to integrate public and private pension plans.

These restrictions have greatly hampered the growth of DC Pension Plans in Japan. Despite being established in 2001, Japan's DC Pensions only account for around 3.6% of corporate pension assets, and cover less than 4% of Japanese workers.

Given the importance of effective retirement planning in a rapidly aging society, the ACCJ also supports further measures by the Government of

Japan to educate workers on how to plan for their retirement and give them the tools necessary to prepare for a "happy old age."

The growth of DC Pensions should, apart from benefiting the welfare of its retirees, also stimulate greater flow of funds into Japanese markets and help stimulate domestic economic activity through greater investment.

The full text of the viewpoint is available as attached, or at http://www.accj.or.jp/doclib/vp/VP_RefRules.pdf

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About the ACCJ

The American Chamber of Commerce in Japan (ACCJ) was established in 1948 by representatives of 40 American companies. Marking its 60th anniversary in 2008, the ACCJ has grown into one of the most influential business organizations in Japan. Consisting mainly of executives from American companies, currently the ACCJ has members representing 1,300 companies with offices in Tokyo, Nagoya, and Osaka. Working closely with the governments of the United States and Japan, business organizations, and others, the ACCJ promotes activities that help achieve its mission of further developing commerce between the United States and Japan, promoting the interests of U.S. companies and members, and improving the international business environment in Japan. Over 50 committees representing various industries play the ACCJ's central role in making policy recommendations through advocacy tools such as the Business White Paper and holding over 500 events and seminars annually on public policy and economic trends. The ACCJ is also committed to promoting charitable events and other CSR activities.

About the ACCJ Investment Management Committee

The aim of the Investment Management Committee (IMC) is to promote full and equal access to Japan's savings and retirement assets for American firms in Japan qualified to manage those assets. The IMC works with the Government of Japan and domestic industry associations to help strengthen and develop the investment management industry in Japan. Further, the IMC provides a diverse range of strategies and products to help meet the needs of Japanese investors.

ACCJ PRESS CONTACT: Media Relations Officer Minako Motoki (phone: 3433 6542; email: mmotoki@accj.or.jp).

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