

Public pension

Employees' Pension Insurance Must Cover More Part-Time Workers and Permanent Employees

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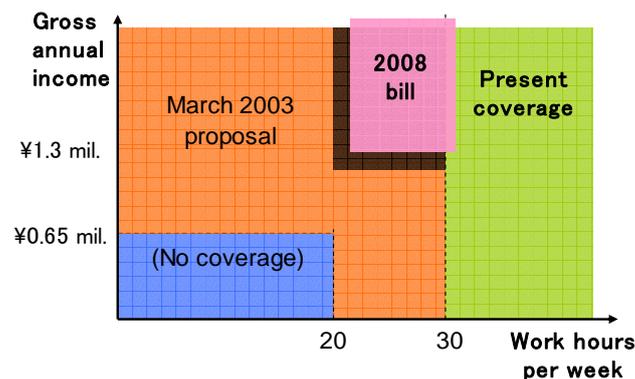
Legislation to integrate three Mutual Aid pension plans into the Employees' Pension Insurance plan has stalled in the Diet for a year. Meanwhile, the bill's provision to expand EPI eligibility for part-time workers has been watered down. However, an even larger problem is the widespread evasion of EPI by employers. Three fundamental revisions are needed to enhance administrative scrutiny and ensure coverage, including for permanent employees.

With the passage of the fiscal 2008 budget bill in the Lower House, the Diet's focus has shifted to other legislative matters. On the public pension, attention has focused on a bill submitted in last year's regular session to partially amend the Employees' Pension Insurance Law to integrate public pension plans. Although submitted after receiving Cabinet approval last April, deliberation on the bill was postponed, and then carried over to the extraordinary session after the Upper House election, and again to the present regular session.

The bill's main provision calls for integrating the National Public Service Personnel Mutual Aid Association (NPSP), Local Public Service Personnel Mutual Aid Association (LPSP), and Mutual Aid Corporation for Private School Personnel (PSP) all into the Employees' Pension Insurance (EPI) plan, thereby creating a single public pension plan for public and private sector employees. In addition, EPI coverage would be expanded to cover part-time workers as part of former Prime Minister Shinzo Abe's "Re-Challenge Society" initiative. Although hastily drafted and rushed through committee, deliberation on the bill has been stalled ever since the prime minister resigned last summer.

At present, EPI eligibility of part-time workers is based on a document drafted by a division chief in the former Ministry of Welfare, and includes workers with "approximately three-fourths or more of the regular work hours per day or week and regular work days per month," with no clear legal basis given. In a March 2003 report, "Study Committee on Employment and Pension" by an unofficial study committee of the MHLW Pension Bureau director, a legal definition was proposed as follows: "At least 20 scheduled work hours per week, or gross annual income of at least 650,000 yen" (see May 2003 issue, in Japanese). However, due to strong opposition from the business community, particularly from service industries, this provision was omitted from the 2004 public pension revision legislation.

Exhibit 1 Proposed Expansion of EPI Coverage for Part-Time Workers



Due to further pressure from the business lobby, the provision in the present bill has been changed to require not only a 20-hour work week, but also a “gross monthly income of at least 98,000 yen, expected service period of at least one year, and establishment size of at least 300 employees” (Exhibit 1). As a result, the pool of eligible part-time workers has decreased from approximately 4 million persons under the March 2003 criteria, to less than 400,000 persons, and perhaps even less when establishment size is considered.

The problem of inadequate EPI coverage is not limited to part-time workers. According to the latest *Fiscal 2005 Survey of National Pension Participants*, released in March 2008, there are now approximately 19 million National Pension participants, of whom 2.3 million are full-time employees including permanent (*seishain*) employees, and 4.7 million are non-full-time. These two categories have been growing both in number and as a percentage of the total each survey year (Exhibit 2). Although accurate data on work hours is unavailable, a significant proportion of such NP participants are believed to be eligible yet denied EPI coverage. In addition, the self-employed category is also thought to contain workers denied EPI coverage and disguised as subcontractors.

According to a 2006 report by the Administrative Evaluation Bureau of the Ministry of Internal Affairs and Communications, approximately 30% of establishments who should provide EPI coverage do not. In addition, the Board of Audit of Japan has found that over 600 million yen in contributions are uncollected each year because of employers who fail to apply for EPI. Thus aside from the issue of expanding EPI eligibility to more part-time workers, a more serious problem exists of EPI evasion by employers that urgently needs to be addressed.

We propose fundamental administrative revisions in three steps. First, government agencies must share more information on employers. At present, the Social Insurance Agency already has access to personal information from local governments and the National Tax Agency. The same level of access is needed for information on employers. Second, employers should be required to collect contributions regardless of their EPI status. Matching payment data against other social insurance programs and tax payments would help alleviate the problem of non-payment of contributions and reveal the EPI status of eligible employees, thereby boosting the government’s monitoring capacity. The third and boldest step is to unify collection of taxes and social insurance premiums. Since contributions for the earnings-related pension will still need to be collected even if the Basic Pension becomes tax funded, this last point must be discussed separately from the tax funding issue.

The present work environment is unreasonable in that for the same service performed, those promised long-term employment enjoy superior compensation to shorter-term workers. The latter are the ones most in need of the public pension, was designed to encourage everyone to adopt a longer horizon for retirement preparation. As long as eligible workers are wrongfully denied EPI coverage, public anxiety about retirement will continue to fester—even if the Basic Pension is converted to tax funding.

Exhibit 2 Trend in National Pension Participation by Employment Status

