

Improving the Public Pension Statement— Suggestions Based on Survey Results

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The government is studying ways to enhance the public pension statement. By informing participants about their estimated benefits and contributions, statements are expected to aid in retirement planning and boost confidence in the public pension system. To maximize the effectiveness of pension statements in Japan, we compare the experiences of selected foreign countries, and analyze survey responses to a model pension statement that we formulated.

1. Introduction ¹

In the public pension reform of fiscal 2004, the government vowed to “convey personal information on the public pension in a way easily understood even by young persons,” and embarked on a policy to inform participants of their pension benefits and contributions through a periodic pension statement.

Following this decision, in February 2005 the Social Insurance Agency² (SIA) began issuing a statement of contributions to National Pension participants. In March 2006, the minimum age for requesting the statement of participation and estimated benefits was reduced from age 55 to 50, and services were expanded to answer inquiries by telephone, Internet, and in person. These developments reflect the growing interest and expectations toward personal statements of public pension benefits and contributions.

In this paper, we first discuss the anticipated effects of notifying participants about benefits

and contributions, referring to the experiences of selected countries. Then we analyze results from two studies of pension participants in Japan regarding the effectiveness of pension statements, and conclude by pointing out issues that warrant further consideration.

2. Two Anticipated Effects of Pension Statements

Two effects are anticipated from issuing a statement of expected benefits and contributions to public pension participants.

First, the statement is expected to provide critical information for retirement planning. Retired households now depend on the public pension for approximately 70% of their income. Knowing how much pension income to expect is thus critical in planning saving and consumption for retirement.

The need to know estimated benefits was heightened by the fiscal 2004 public pension reform. By 2025, new “macroeconomy indexation” adjustments will reduce the wage replacement rate of Employees’ Pension benefits by approximately 20%, putting a greater burden on supplemental private retirement savings including corporate pensions to take up the slack.

¹ This research is part of a project, “Research on Designing a Public Pension Statement to Inform Individuals About Their Benefits and Contributions,” funded by a grant from the Ministry of Health, Labor and Welfare.

² In October 2008, the SIA will be reorganized as an independent agency called Nenkin Jigyo Kiko.

Exhibit 1 Public Pension Statements in Selected Countries

	Germany	Sweden	U.S.	Canada
Name of statement	Renteninformation	Den Allmänna Pensionen	Social Security Statement	Statement of Contributions
Year started	2004 (2001 by trial)	1999	1999 (1988 by request)	1997
No. of pages	3 pages	4 to 6 pages	6 pages (4 under age 60)	1 page
Frequency	Annual	Annual	Annual	Annual
Minimum age of recipient	27	16	27	18
Contents				
Estimated old-age benefit	3 scenarios	6 scenarios	3 scenarios	1 scenario
Survivor/disability benefit	No	No	Yes	Yes
Pension points	Yes (also needed for disability benefit)	Yes (needed for early retirement & survivor benefit)	No	No
Record of contributions	Yes (cumulative)	Yes (last & cumulative)	Yes (cumulative)	Yes
Record of earnings	No	Yes (recent)	Yes	Yes
Contact information	Yes	Yes	Yes	No
Other information	Explains need for other retirement finances	Shows balance & performance of funded portion	Mentions Social Security Trust Fund's expected date of deficit & exhaustion	None

Moreover, since the benefit multiplier is affected by indexation, most individuals will be unable to estimate benefits on their own.

The second anticipated effect is to instill greater confidence in the pension system. According to a report released by the Ministry of Health, Labor and Welfare in December 2002 (*Direction and Issues of the Pension Reform Framework*), the basic perspective guiding the fiscal 2004 pension reform was “to alleviate mistrust of the pension system among working generations, particularly young generations,” and “to make the system easier to understand so that working generations can visualize their future benefits.”

Amid the ongoing revision of public pension benefits, the media has sensationalized the looming “pension crisis” and cases of misuse of pension funds. This has aggravated the already low pension participation rates, which reveal a growing anxiety and mistrust among

participants. By informing participants about expected benefits and contributions, pension statements can raise expectations toward the pension, and help alleviate the anxiety and mistrust.³

In fact, people harbor a strong desire to know about their contributions and expected benefits. In our 2005 survey of Category 1 participants (self-employed persons), 89% of respondents were curious to know these aspects of their pension. Moreover, as many as 30% of respondents who had made no contributions over the past two years were also curious.

Many reasons exist for not participating,

³ The expectation is that personalized information about expected benefits will give people the impression of having an individual account—similar to a defined contribution plan—and thus promote understanding and confidence in the pension system.

including liquidity constraints and disinterest in the long-term future (reflecting a higher rate of time preference). At the very least, pension statements can offer comfort to people who shun participation due to a lack of understanding of the system or fear that benefits will not be paid.

3. Selected Case Studies from Abroad

(1) Reason for Introducing Statement

In examining pension statements of other countries, we focused on the methods and information employed to achieve the two aims of assisting retirement planning, and improving understanding and confidence in the pension system.

Exhibit 1 compares pension statements currently used in Sweden, Germany, the U.S., and Canada.

All of these pension statements have existed for less than a decade. In Sweden and Germany, pension statements were initiated to help people better plan for retirement after pension reforms increased the importance of alternative income sources.

In Sweden, the 1999 pension reform converted the existing defined benefit formula to a dual-pillar plan consisting of a pay-as-you-go notional defined contribution (NDC) pillar and funded defined contribution (FDC) pillar. In the previous plan, benefits were calculated based on the highest 15 years of wages in the participation period (up to 30 years). In the new plan, while contributions are more closely linked to benefits, the benefit amount and wage replacement rate depend on investment performance.

Along with the pension reform, in 1999 the government introduced a pension statement called the “Orange Letter.” The statement has two purposes—to generate more interest in the pension system, and to encourage better retirement planning including corporate

pensions and individual annuities.

Germany also introduced a pension statement with the 2001 pension reform. The reform reduced the wage replacement rate, and introduced a supplementary state-fostered funded pension provision (*Riester-Rente*). The statement’s primary aim is to convey the importance of preparing the other two pillars of the pension plan—corporate pensions and individual annuities.

The second aim of the statement is to alleviate widespread mistrust and anxiety toward the public pension especially among young workers, who are concerned about shrinking benefits and rising contributions. The statement is intended to instill confidence by showing that benefits will grow year by year.

To achieve these aims, the Retirement Savings Act of 2004 (AVmG) requires the government to issue two types of pension statements—the annual *Renteninformation* statement, and the more detailed *Rentenauskunft* statement issued every three years.⁴

2. Similarities

The pension statements in all four countries examined share three similarities. First, statements with estimated benefits are issued to workers starting at a young age. For young and old alike, estimated benefits are calculated based on clear assumptions including income to age 65. The aim is to impress on the public the pension’s role in retirement planning from a young age. Even Germany’s pension, which uses a point system, provides concrete numbers on contributions and estimated benefits.

⁴ The *Rentenauskunft* is issued every three years to persons aged 54 and over. The statement, which contains explanations of benefits and a detailed participation record, is almost 20 pages long.

Second, statements are designed to be clear and readable. To encourage people to read the statement, only the most important information is included, and statements are no longer than six pages. Sweden's Orange Letter comes in 5,000 format and content variations tailored to the recipient's age, occupation, status of spouse and children, and language. Thus for example, recipients without children do not receive information pertaining to children. Since all of the supplied information is relevant, the recipient is more prone to read the statement attentively. Moreover, responses to the statement are surveyed each year to continually improve readability and clarity.

To make the statement as compact as possible, some information is provided separately. A pamphlet accompanying the statement explains how the pension system works and what technical terms mean.

Third, statements are part of an integrated campaign to educate the public about their own pension and about the public pension as a whole.

In Sweden, the Orange Letter is part of a broader campaign to educate the public about the pension system following the pension reform. Inquiries are welcomed, with the bottom of each page listing contact information such as web site address and telephone number. The statement year (05 for 2005, for example), which appears in the upper right corner of each page, is coded by color and font for quick reference to the year and page number when making telephone inquiries. In addition to handling inquiries and consultations by Internet, telephone, and in person, the government also disseminates information on the pension system and estimated amounts in newspapers and other media.

Governments in other countries also conduct campaigns to deepen understanding of the pension system and its impact on individuals. Pension statements are but one of many communication channels being used.

As for whether statements have produced the anticipated effects, in Sweden awareness of the new pension system climbed from 81% in 1998—the year before the Orange Letter was introduced—to approximately 90% afterwards. Moreover, the proportion of knowledgeable and very knowledgeable respondents regarding the pension system rose from 18% in 1998 to 48% in 2001. Meanwhile, the proportion of respondents expressing confidence in the pension system rose from 29% in 1998 to 37% in 2001.

4. Reactions to the Pension Statement in Japan

Below we present results of two studies that we conducted on pension statements in Japan. Both were conducted from the perspective of enhancing the two anticipated effects mentioned earlier.

1. Experiment on National Pension Participants (How to Enhance Participation)

In the first study, we tested different statement formats to see which would most likely encourage people to participate in the National Pension.

The sample consisted of 219 persons designated as Category 1 (self-employed) participants of the National Pension. They were divided into six groups and asked, "If participation in the National Pension were voluntary, would you enroll and pay contributions?" Then using a different statement format for each group, we showed Groups 1 to 5 the present value of total contributions and expected benefits, by year of birth. Group 6 received a statement with information not pertaining to the pension. Afterwards, we asked the same question again to see if responses had changed significantly.

Compared to Group 6, Groups 1 to 5 showed a greater willingness to participate (at the 5%

significance level). Moreover, the willingness to participate was not significantly affected by the particular statement format used, even one that described the risk of benefit cuts due to indexation.

In addition to contributions, the basic pension (National Pension) is partially funded by the state treasury. For this reason, despite benefit indexation, estimated benefits can still exceed paid-in contributions. By seeing the positive return expressed in tangible numbers by year of birth, respondents apparently became more motivated to participate. Thus we believe the statements helped alleviate anxiety and mistrust about being shortchanged by the pension.

2. Survey of Employees' Pension Participants (Reactions to the Model Statement)

Our second study examined reactions of Category 2 (employed) participants of the Employees' Pension to our model statement.

We followed the example of Sweden, where pension administrators strive to improve the Orange Letter's readability and effectiveness every year by interviewing 20 persons and surveying 1,000 persons with a questionnaire. We created a model pension statement and elicited reactions through group interviews and a questionnaire survey. Our aim was to optimize the pension statement so that Employees' Pension participants can better prepare for retirement. The sample consisted of male participants of the Employees' Pension in their late 40s to early 50s.

From late November to early December 2005, we gathered reactions to the model statement from 17 persons in group interviews.⁵ Then to see how

representative these reactions are, we conducted a questionnaire survey of male company employees aged 50 to 54 via the Internet.⁶

The model statement is a 4-page document prepared for a hypothetical male born in 1950 (Exhibit 2).⁷ Respondents were instructed to answer questions as if it were their own statement issued periodically by the government.

Page 1 of the statement presents two estimated benefits based on different income scenarios—that income decreases to 50% of the current income from now to retirement, and that current income remains unchanged to retirement. Having two estimated benefits instead of one is intended to do three things: (1) show that changes in future income will affect benefits, (2) give an idea of the approximate benefit range to expect, and (3) make it clear that these are estimates and that the actual amount may vary. Pension statements in Germany and Sweden also present estimated benefits under several scenarios.

Group interview respondents generally liked having two income scenarios. Typical comments include, "It gives an idea of the benefit to expect," and "It shows that the benefit won't change much even if my income changes." In the questionnaire, approximately 90% of respondents approved of having two estimated benefits for the same reasons (Exhibit 3).

But respondents were divided regarding which income scenarios should be shown. In the group interview, many suggested that in addition to the two scenarios, there should be a third scenario for withdrawing from EPI (by leaving the current employer and becoming a Category 1 self-employed person).

⁵ We conducted two group interviews, each with six male company employees aged 50 to 57, and a third group interview with five male company employees aged 45 to 49.

⁶ The questionnaire survey was conducted from January 27 to 31, 2006. We received 221 valid responses.

⁷ In the group interview of company employees aged 45 to 49, the hypothetical recipient was born in 1958.

Exhibit 2 Model Pension Statement

※ This pension statement was compiled for academic research purposes, and has not been reviewed or approved by any government authority.

○—○—○ ○○○ City, Japan
Mr. ○○○○

Date of birth	April 1, 1950
Basic pension no.	○○○○○○○○○○
Date of estimate	April 1, 2005

I. Estimated old-age benefit for Mr. ○○○○ (as of April 1, 2005)

The estimated old-age pension benefit that Mr. ○○○○ will receive upon retirement is calculated as explained below. Please note that the actual amount you receive may vary.

- ※ The estimates are based on your reported annual income to age 54, and predicted income from age 55 to 60. We prepared two scenarios for predicted income: (1) your annual income decreases by 50% from now to age 60, and (2) your annual income remains at the current level to age 60.
- ※ Both scenarios assume that from age 60 you no longer participate in either the Employees' Pension or National Pension.
- ※ The estimates do not consider the case that you decide to start receiving benefits either earlier or later than the prescribed age.
- ※ The estimates do not include your spouse's benefit, nor the additional amount for a dependent spouse.
- ※ The estimates do not consider the effect of changes in price or wage levels. These changes will cause the actual benefit to vary by a similar amount. (See Page 2 regarding adjustments for inflation and other factors)

Estimated benefit if your income decreases 50% to age 60

At age 60~64	¥1.55 million per year (¥129,000 per month)
At age 65 and over	¥2.30 million per year (¥192,000 per month)

• Mr. ○○○○ is entitled to receive the Old-Age Employees' Pension at age 60, and the Old-Age Basic Pension at age 65.
• The estimate at age 60~64 includes only the Old-Age Employees' Pension. The estimate at age 65 and over includes the Old-Age Basic Pension (¥750,000) and Old-Age Employees' Pension (¥1.55 million).

Estimated benefit if your current income is unchanged to age 60

At age 60~64	¥1.67 million per year (¥139,000 per month)
At age 65 and over	¥2.42 million per year (¥202,000 per month)

• Mr. ○○○○ is entitled to receive the Old-Age Employees' Pension at age 60, and the Old-Age Basic Pension at age 65.
• The estimate at age 60~64 includes only the Old-Age Employees' Pension. The estimate at age 65 and over includes the Old-Age Basic Pension (¥750,000) and Old-Age Employees' Pension (¥1.67 million).

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IV. Participation record of Mr. ○○○○ (April 1, 2005)

Mr. ○○○○'s participation record in the public pension is as follows.

Record of participation in the public pension

	Participation ※ (months)	Paid-in contributions (your share)	(employer's share)
To March 2004	384 months	¥8,380,000	¥8,380,000
April 2004 to March 2005	12 months	¥440,000	¥440,000
As of March 2005	396 months	¥8,820,000	¥8,820,000

※ Participation (no. of months) includes all public pensions such as the National Pension and Employees' Pension.
※ To receive the public pension, you must participate for at least 300 months (25 years).
Mr. ○○○○ already satisfies this condition.

V. Estimated old-age benefit if you retired today (April 1, 2005)

As a result of your participation over the past year, the estimated benefit you would receive if you were to retire today has changed.

However, please note the following points.

- ※ This estimate is provided so that you can see how much the benefit has increased because of your participation in the past year.
- ※ You are not yet old enough to draw the estimated benefit shown below. The estimated benefit assumes that you start drawing the benefit from age 65.
- ※ The estimated benefit shown below assumes that you will stop paying in contributions. For this reason, it is not the same amount as shown on Page 1.

Estimated benefit if you retired today

Estimated benefit if you had retired in March 2004 + FY2004 adjustment for inflation, etc.	¥2.01 million per year ¥20,000
+ Increased benefit due to participation and contribution from April 2004~March 2005	¥60,000
Estimated benefit if you retired today (March 2005) (of which, portion paid by central govt.)	¥2.09 million per year (¥160,000 per year)

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II. After you start receiving the old-age benefit

1. You will receive benefits for as long as you live

Men born in the same year as you have an average life expectancy of 80.6 years, but approximately one in seven are expected to live to age 90. But you will receive your old-age benefit no matter how long you live.

2. Your benefit is indexed to inflation and other factors

Since benefit payments span a long period, inflation and other economic conditions are likely to change during this period. If you are under age 68, your old-age benefit is indexed to the wage growth of current workers once a year (this is a reevaluation). From age 68, your benefit is indexed to inflation once a year (this is the inflation index).

However, as long as pension finances are being restructured, benefit growth will be limited by the decrease in public pension participants and increase in longevity of pension recipients.

3. Your benefit is partly funded by the government

The old-age basic pension consists of the old-age basic pension, which is the same for everyone, and the old-age Employees' Pension for employed workers. Two-thirds of the old-age basic pension is funded by current premium income and investment income, and the remaining one-third by the central government's general account through taxes and government bonds.

III. You and your family may also be entitled to the following benefits

1. Disability benefit if you become disabled

If you acquire a category 2 disability, you will be eligible for the following benefit.
¥2.69 million per year (¥224,000 per month)

※ The actual amount may vary depending on the disability and status of your spouse and children. The amount shown is based on your current family status.

2. Survivor's benefit if you die

In the event of your death, surviving family members will be eligible for the following benefit.
¥2.10 million per year (¥175,000 per month)

※ The actual amount may vary depending on the status of your spouse and children. The amount shown is based on your current family status.

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※ This pension statement was compiled for academic research purposes, and has not been reviewed or approved by any government authority.

VI. Delayed benefits and working after age 60

After reaching pensionable age, if you choose to continue working and participating in the Employees' Pension, you can receive a larger benefit at retirement. In the meantime, however, the benefit may decrease (this is known as the Old-Age Pension for Active Workers).

During the time that you continue working, the benefit is determined by your current income and the benefit you would have received had you retired. Assuming that the latter is the same as shown on Page 1, your contribution and the estimated benefit you will receive while working and at retirement are shown below.

Delayed benefit if you earn half your current income (¥4 million)

(A) If you work to age 65
Contribution (age 60~64) ¥320,000~¥350,000 per year (your share)※
Benefit (age 60~64) ¥450,000 per year (¥38,000 per month)
Benefit after retiring (from age 65) ¥2.47 million per year (¥205,000 per month)

(B) If you work to age 70
Contribution (age 60~69) ¥320,000~¥370,000 per year (your share)※
Benefit (age 60~64) ¥450,000 per year (¥38,000 per month)
Benefit (age 65~69) ¥2.11 million per year (¥176,000 per month)
Benefit after retiring (from age 70) ¥2.58 million per year (¥215,000 per month)

Delayed benefit if you earn your full current income (¥8 million)

(A) If you work to age 65
Contribution (age 60~64) ¥630,000~¥690,000 per year (your share)※
Benefit (age 60~64) ¥0 per year (¥0 per month)
Benefit after retiring (from age 65) ¥2.70 million per year (¥225,000 per month)

(B) If you work to age 70
Contribution (age 60~69) ¥630,000~¥730,000 per year (your share)※
Benefit (age 60~64) ¥0 per year (¥0 per month)
Benefit (age 65~69) ¥790,000 per year (¥66,000 per month)
Benefit after retiring (from age 70) ¥2.94 million per year (¥245,000 per month)

※ Contribution increases will be phased in until 2017.

For more information

Frequently asked questions
Visit the Social Insurance Agency's web site (<http://www.sia.go.jp/>)
Automated fax answering service (24-hour): ○○—○○○—○○○

Specific questions regarding your pension benefits
By telephone (pension hotline): ○○○○—○○—○○○○ (00:00~00:00 weekdays)
In person: Visit the nearest pension information counter or SIA office:
• ○○ Pension information counter: 〒○○○-○○○ ○○○○○○○○○○○○○○○○○○○
(00:00~00:00 weekdays) / ○○ Line, ○○ station, exit ○○, ○-minute walk
• ○○ SIA Office: 〒○○○-○○○ ○○○○○○○○○○○○○○○○○○○○○○○○○○○○○
(00:00~00:00 weekdays except Mondays, 00:00~00:00 Mondays, and 00:00~00:00 on the second Saturday of each month) / ○○ Line, ○○ station, exit ○○, ○-minute walk
※ The SIA web site provides information on location and congestion status of information counters.

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Exhibit 3 Reactions to the Model Pension Statement (estimated benefits)

Do the two income scenarios show you the approximate benefit you can expect?		Do the two scenarios clearly show that a change in future income will affect benefits?	
Definitely	27%	Definitely	34%
Somewhat	61%	Somewhat	58%
Not really	9%	Not really	6%
Not at all	3%	Not at all	1%

Are you disturbed by the scenario that reduces annual income by 50%?		If two income scenarios are to be used, which two should they be? (as % of present income)	
Definitely	10%	100% and 50%	46%
Somewhat	22%	100% and 0%	27%
Not really	29%	50% and 0%	25%
Not at all	39%	100% and 150%	1%
		50% and 150%	2%

Would the estimated benefits be easier to understand if they appeared on a separate sheet?		Do you think the estimated benefits should also include the spouse's pension benefit?	
Definitely	51%	Definitely	52%
Somewhat	33%	Somewhat	33%
Not really	7%	Not really	7%
Not at all	9%	Not at all	9%

The scenario for a 50% income decrease was troubling to some group interview participants, who said, “It seems to suggest that my annual income is going to decrease 50%,” and “Why does the 50% decrease scenario come first on the statement?” In the questionnaire survey, approximately 30% of respondents likewise expressed a negative sentiment toward the 50% decrease scenario. Thus further study is warranted regarding the combination of income scenarios and method of presentation.⁸

Some group interview respondents were also confused by the difference in estimated benefits when benefits are drawn from age 60 and 65.⁹

Thus in the questionnaire survey, we presented estimated benefits by age in a table format. Approximately 80% of respondents found this

format easy to understand. The table format is preferable for the EPI, since fixed benefits and earnings-related benefits start at different ages for men born before 1962, and women born before 1967.

Similar to the statement of estimated benefits now issued by the SIA, our model statement does not include the additional benefits for spouses who are dependent on pension beneficiaries. Approximately 80% of respondents prefer that the spouse's benefits be included. Once pension statements actually start, the spouse will receive a separate statement of benefits. But further study is needed, since as things now stand, the additional benefits for dependent spouses could be omitted from either statement.

Page 2 of the model statement explains the public pension's characteristics. Surveys by the Cabinet Office and SIA have found that people are not very familiar with the inflation and wage indexation of benefits. In our survey, approximately 90% of respondents reacted favorably to the lifetime pension and inflation indexation characteristics after reading the explanation. This informing participants about the public pension's less known features seems to

⁸ Another possibility that we did not consider here is to present an estimated benefit for Category 2 participants as a whole or by age, based on average future earnings.

⁹ The statement shows that the total estimated benefit increases at age 65, when the basic pension starts. But some respondents misunderstood this to mean that benefits from age 60 to 64 are smaller due to early payment.

instill a sense of security in retirement planning and boost confidence in the pension system.

Also on Page 2, benefit indexation is explained as follows: “While pension finances are being improved, growth of benefits will be restrained by taking into account the decreasing number of participants and longer lifespan of pensioners.” In the group interview, respondents remarked that “This statement is unclear and increases anxiety about the future.” In the questionnaire, less than 10% of respondents were satisfied by the explanation of the benefit-restraining mechanism, with the other respondents were evenly distributed between “somewhat satisfied,” “somewhat dissatisfied,” and “dissatisfied.”

Frankly, the indexation mechanism is complex and can be difficult to comprehend even for experts. Special care is needed to adequately explain this aspect of the pension, such as by preparing a separate pamphlet with specific examples and illustrations.

Page 3 shows the record of participation. In the group interview, attention focused on the line stating whether the eligibility requirement had been fulfilled. Since the SIA does not provide this information to participants until age 58, younger participants must find out for themselves.

This leaves participants wondering about their eligibility status, and uncertain whether they will actually draw benefits. In the questionnaire, approximately 90% said that knowing their current eligibility status is useful to retirement planning. In addition, when asked which part of the statement from Page 2 to 4 could be safely omitted (single choice response), the record of participation at the top of Page 3 received the fewest votes at less than 10%. These results suggest that current eligibility status (and time to acquiring eligibility) is a critical component of the pension statement.

When participants learn eligible is within reach, it not only fosters a sense of security for retirement planning, but also increases

confidence in the pension system.

Page 4 presents estimated benefits for the old-age pension for active employees, and also lists contact information at the bottom. The calculation of old-age pensions for active employees changes at age 65, while the benefit amount depends on the sum of earned income and the benefit that would be paid if already retired. Thus four scenarios are shown based on retirement age (65 and 70) and earned income (50% and 100% of current income). In both the group interviews and questionnaire, respondents commented that it was difficult to look ahead and imagine their work status after age 60, and that the example given was cumbersome and hard to comprehend.

Local SIA offices receive many inquiries on the old-age pension system for active workers. However, we found interest to be muted among workers who have not reached the applicable age, since they apparently have difficulty imagining this situation and making specific assumptions about retirement age and income. Thus if this information is to appear on the statement, a general numerical example is unnecessary, and participants need only know that the benefit decreases if they remain active workers.

Finally, we asked respondents when they would like to start receiving periodic statements. In both the group interviews and the questionnaire, many responded it would be when they had fulfilled the eligibility requirement. This underscores once again the importance of knowing the eligibility status for retirement planning.

Our results indicate that pension statements can produce the two anticipated effects of helping to better prepare for retirement, and increasing understanding and confidence in the pension system. With regard to the National Pension, we confirmed that informing participants about the relationship between total paid-in contributions and benefits heightens their willingness to participate and pay contributions.

We also confirmed that information on expected benefits most helps Employees' Pension participants plan for retirement from the time they become eligible for benefits, until they start drawing benefits. In particular, presenting more several estimated benefits under different income scenarios makes it easier to grasp the approximate range of future benefits and to realize that actual benefits will depend on future income. Participants are also very interested to learn if or when the eligibility requirement will be satisfied.

5. Issues for Further Study

The SIA now sends a statement of estimated benefits to participants aged 50 and over at their request. During fiscal 2006, participants aged 35—roughly half way through the participation period—will start receiving statements. In 2008, all participants will start receiving periodic statements of estimated benefits based on a point system.

In addition to periodic statements, a new service was launched in March that allows participants to view their participation record on the Internet. Estimated benefits are slated to be added to the service in the future. This service is expected to enhance the convenience to participants and heighten their understanding of the pension.

Our research raises several points for further consideration. First, the content of statements for young persons needs to be considered. To enhance their sense of participation, a statement of some form would be useful from around age 30. The problem is whether to include estimated benefits at this age. Objections include the high uncertainty implicit in such a long-term projection, and the low need to know the estimated benefit at this age.

At present, participants cannot receive a statement of estimated benefits until age 50. This is because in addition to the lack of data preparation, the earnings-related portion of the

Employees' Pension depends heavily on future earnings.

However, suppose that the estimated benefit shown in the statement falls far below expectations. Learning this fact at age 50 may be too late to prepare for retirement, even by pushing back the retirement age. In this case, earlier notification would give people a head start in supplementing the pension. Statements would not need to be issued annually, but should start at around age 30 and include estimated benefits.

The second point is the explanation of benefit indexation. Under the so-called macroeconomic indexation method introduced in the fiscal 2004 pension reform, estimated benefits will depend not only on the participant's own earnings, but on factors such as the total number of participants, population and wage growth rates, and investment return. However, the new indexation will be suspended if the model income replacement rate dips below 50%, thus guaranteeing a minimum benefit level.

We believe that the indexation mechanism should be explained using illustrations and other means as mentioned earlier, to show how economic and demographic factors will affect future benefits. Regarding estimated benefits, participants should be notified of the expected benefit amount in the worst-case scenario depending on their income group (by total standard earnings).

However, any explanation must observe the tenets of behavioral economics and applied psychology. For example, consider the following statement: "The standard benefit is ¥150,000 per month, which may decrease due to economic and demographic factors, but will not fall below ¥120,000 per month." While this is clear, a more acceptable explanation might be: "The minimum benefit is ¥120,000, but could increase to ¥150,000 if the standard economic and

demographic assumptions bear out.”¹⁰

The third point is whether to include the record of contributions (cumulative). While cumulative earnings (record of standard earnings or its revalued amount) can be calculated from participation records, contributions are a different matter—since the contribution rate is not fixed, and since no records exist, new software programs must be developed to calculate cumulative contributions.

But even if these technical problems can be solved, in the case of the Employees’ Pension, total estimated benefits can fall short of total contributions (both at present value) for some participants. This raises a concern that providing such information will encourage these people to withdraw based on a personal breakeven analysis, which contradicts the public pension’s principle of mutual and intergenerational support. However, we believe that notifying participants of their benefits and contributions is important as a way to personalize the public pension, and thereby deepen understanding and confidence in the system.

The fourth point is to augment mailed statements with improved two-way communication. Inquiries should be promptly answered not only by telephone and at information counters, but by Internet and e-mail.

When pension statement mailings begin, inquiries are bound to increase. Responding to these inquiries will cost time and money. But the inquiries will produce direct feedback on the concerns and needs of participants, and are a crucial interface that should be aggressively

pursued. Pension statements are to be welcomed if they can draw the public into this interface. Obviously, costs need to be appropriately managed—but not at the expense of reducing these opportunities.

¹⁰ In behavioral economics, Kahneman and Zversky (1979) emphasize the importance of the initial reference point, which determines gain or loss. Any result that exceeds the reference point is experienced as a gain, and heightens satisfaction. Thus the lower the reference point is, the more likely a particular result will cause satisfaction. Applied psychology suggests a “door in the face” negotiating tactic— the first offer (low benefit) is meant to be rejected, making subsequent offers (standard benefit) more appealing.