IGP Country Profile
Japan

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Customary employee benefits

Death benefits

Group life insurance

A provision to pay a lump sum benefit in the event of an employee's death is a standard employee benefit.

Most companies have group life insurance to cover employees for that purpose. Benefits may be a flat amount for all or may be determined by rank or by seniority.

Multinational companies generally have a group life insurance plan, the benefit of which is based on the employee's annual or monthly salary. Typically, the benefit is two times annual salary.

The maximum amount of coverage is usually JPY 100 million per person. Employers generally pay all the premiums, which are fully tax-deductible.

Group term life insurance

Group life insurance continues to gain popularity in Japan.

The vast majority of group life policies in force are group term life insurance. The present group term life insurance product is called "General Welfare Group Term Life Insurance".

In 2017, due to increases in the average life expectancy, the Institute of Actuaries of Japan (IAJ) revised the Standard Mortality Table effective April 1, 2018.

The payment of all the proceeds to the bereaved family must be stipulated in the corporate regulations. The maximum insurance amount per life is not legally regulated. The policyholder or employer can become a beneficiary on the insurance contract, and this is a customary practice in Japan.

The planned implementation of a group term life insurance plan must be announced to all the employees by a written document. A representative employee (e.g., chairman of the union) is required to acknowledge that the document has been distributed to all the employees.

Calculation of benefits

Benefits may be the same for everyone, or they may be based on some objective criterion such as seniority, rank, or salary. Generally speaking, rank is the most common basis for calculation, but the Dai-ichi's foreign clients have chosen salary-based plans in the majority of cases.

In the Dai-ichi's experience, the most common plan implemented by multinational companies is two times annual salary, followed by one times annual salary.

Premiums

The premium of participating group term life is fixed given the Government approval, whereas that of non-participating GTL is competitive. Non-participating basis is much cheaper than participating basis.

Medical benefits

Hospitalization

- 5,000 yen - 15,000 yen per day (flat amount)
- Max 120 days per hospitalization

Surgery benefit

- Outpatient: 5 times of hospitalization benefit
- Inpatient: 20 times of hospitalization benefit

Advanced medical care may be covered with a rider.

Maternity and normal delivery are not covered.

Long-term care insurance

With the impending problem of an aged society and an expected increase in demand for nursing and medical care for the aged, long-term care insurance started in Japan on April 1, 2000.

All individuals age 40 or older are required to have long-term care insurance, regardless of the cause of the need for care. Insureds aged 40 to 64 are covered for care and services needed due to the symptoms of aging, such as dementia.

Retirement

Lump sum retirement benefits

Implementation

Together with an age-limit system, a large majority of Japanese companies pay a lump sum benefit to those employees retiring at a certain retirement age (usually age 60-65). A lump sum benefit is also paid for voluntary severance, usually to those employees who served three years or more.

Level of benefits

Lump sum benefits are usually calculated by multiplying a final base salary by an applicable figure. Such figures increase in proportion with the length of service, typically, one for each year of service.

Applicable figures for voluntary severance are lower than those for retirement at the retirement age.

Book reserve

On April 1, 1977, a law became effective whereby a company must make an effort to fund outside the company, or to otherwise secure or guarantee, at least 25% of voluntary severance benefit liabilities.

Tax benefit

The tax benefit to set up a book reserve for voluntary severance benefit liabilities ended in 2002.

Companies must amortize the remaining balance of such non-taxable book reserves within four years (for smaller companies, within ten years).

Defined Benefit corporate (DB) pension:

The Defined Benefit Pension Law became effective on April 1, 2002. The Defined Benefit Corporate Pensions created via this law are intended to take the place of the Tax-Qualified Pension Plans (TQPP).

Note: In March 2012, all the TQPP plans have ceased due to government legislation. Most were transferred to DB and DC, and the rest were abolished as of March 2012.

Benefit eligibility

At the time of retirement, a lump sum benefit must be provided to employees who have worked for the company for three or more years. This will apply to involuntary retirements as well. If an employee has worked for over 20 years, he/she will be eligible to receive pension benefits.

Financial regulations

Under the new DB pension regulations, the financial condition of the pension plan is assessed once a year to ensure that the plan has sufficient assets to operate and has no problems in paying forthcoming benefit payments. When the amount of assets is determined to be insufficient, policyholders are required to increase their contributions to resolve the deficit within a certain period of time. If the pension plan has been over-funded, the surplus will be reserved in the plan, and a “contribution holiday” is awarded.

Taxation

Premiums paid by the employer are fully tax-deductible, and pension assets are subject to a special corporate tax (temporarily suspended until March 31, 2026).

Amendment

An amendment to the DB Corporate Pension Act became effective on April 1, 2018. The Ministry of Health, Labor and Welfare announced the proposed revision of the defined benefit corporate pension enforcement regulations and related notice on September 15, 2017, and it was promulgated on November 8, 2017.

Listed below are the main contents and requirements of this amendment:

1. Formulation of [Basic Investment Policies] and Policy Asset Allocation
2. Stating the policy of diversified investment and concentrated investment on the [Basic Investment Policies]
3. Stating the policy of alternative investment on the [Basic Investment Policies]
4. Establishment of a pension committee
5. Reviewing the standards of selecting and evaluating investment managers

6. Points to be aware of when putting investment consultants to practical use
7. Factors to inform the employees
8. Stewardship Responsibility

Defined Contribution pension (DC) plans

Defined Contribution Pension law became effective as of October 2001. DC plans have characteristics that are similar to a 401(k) plan in the U.S.

There are two types of DC plans: A corporate DC plan and an individual DC plan. An employer can implement a corporate DC plan for employees. Employees and the self-employed may participate in an individual DC plan.

Under a corporate DC plan, employees are allowed to pay the contributions until age 65, which was extended from age 60 in 2014.

Under an individual DC plan, individuals are allowed to continue the payment until age 60.

Matching contribution (contribution from both employee and employer) has been allowed since January 2012. However, there are two restrictions: employee contributions cannot exceed employer's contributions, and combined employee and company contributions must be within the monthly contribution limit.

For either type of DC plan, participants have the right to choose the investment product. The employer must offer at least three types of investment or saving products for employees to choose from. Among them, at least one must be a principal protection type. Accumulated assets for each individual will be managed separately by the managing company.

Portability is also a major feature of a DC plan. Employees are able to bring their accumulated assets to their new employer's DC plan when changing jobs, or to an individual DC plan, if the new employer does not offer a corporate DC plan. Thus, job switching will not interrupt the accumulation.

Participants can claim their retirement allowance at age 60 or older, but before age 70. Benefits can be paid either as an annuity or lump sum. Benefit payments before age 60 are not permitted, except in case of death or severe disability of the participant.

The Japanese Diet passed the Defined Contribution (DC) Amendment Bill on May 2016, and the amendments were rolled out beginning on January 1, 2017.

This Bill represents some of the most significant changes to DC plans since their inception. These changes include expanding eligibility for participation and defining contribution limits on an annual basis rather than the current monthly basis.

An additional Defined Contribution Amendment Bill was passed by the Japanese Diet in the FY 2017 and 2018.

The main contents of this amendment are outlined below:

- **January 2017**
  Extension of the range of application of Individual-Type DC
- **January 2018**
  - Change of DC contribution Period Unit
  - Ability to make contribution on an annual basis, starting January 2018.
- **May 2018**
  - Establishment of simplified DC Plan and small to medium-sized business owner contribution payment system for Individual-Type DC Plan
  - Expansion of portability
  - Obligation to make efforts for continuous investment education and limit the number of investment products
  - Abolition of default product and introduction of the operational investment method

Eligibility and contribution maximum

The following is a basic outline for eligibility and maximum contribution amounts to the DC plan. The maximum contribution limit was increased in January 2010:

Type of DC plan	Participation in EPF or DB	Maximum monthly contribution
Corporate DC (Note 1)	Yes	JPY 27,500
	No	JPY 55,000
Individual DC (Individual contribution only)	No (employees of private company)	JPY 23,000
	No (self-employed)	JPY 68,000
	Yes	Cannot make contribution (Note 2)

Note 1: Matching contributions are allowed, but employee's contributions cannot exceed employer's contributions.

Note 2: A participant of DB will be able to contribute to individual DC from 2017, according to the revision of the DC regulations in 2016, with a maximum monthly contribution of JPY 12,000.

Other taxation

Balance of DC plan are not subject to special corporate tax, as the special corporate tax was suspended in April 2001.

The lump sum benefit provided by a DC plan is treated as retirement income, to which the retirement income deduction and separate tax rate applies. The annuity benefit is treated as a public pension, to which the public pension deduction applies.

Legislative news

Updates to the Employment Insurance Act

Expanded coverage for employee pension insurance - 2024

Effective October 1, 2024, the Employee Pension Insurance program was broadened to include more part-time workers, specifically at companies with 51 or more employees, who will now be covered by the program.

Flexible working arrangements for employees with young children - 2024

Employers must implement flexible working arrangements for employees taking care of children aged three or older.

Starting April 1, 2025, government-funded family care leave will be broadened. Employees will be eligible to take this leave to care for a sick or injured family member, including children. All employees, regardless of their years of service, can use this leave not only when children are sick but for other events or social occasions concerning their children.

Main Adjustments in the Employment Insurance Act - 2025

Broader access to employment insurance

The minimum weekly work hours required for employment insurance eligibility will be reduced from 20 hours to 10 hours so that more part-time workers will qualify for employment insurance.

More support for skill development

Eligibility for benefits for education and training is extended to employees for voluntarily leave their jobs.

Childcare leave benefits and insurance premiums

New subsidies for parents (postpartum leave subsidy and “childcare shortened employment subsidy”) and adjusted policies for elderly workers and job seekers.

A flexible insurance premium system will be introduced making the childcare leave insurance premium rate dependent on financial conditions. The childcare “shortened employment subsidy” will assist parents who choose shorter working hours.

Typical employee benefits plans

Example - Company 1

Group Term Life Insurance Plan:

Life insurance:	An amount equal to 24 times monthly salary Maximum: JPY 100,000,000 Minimum: JPY 1,000,000

Cash Balance Plan (New DB):

Types of benefits:	Annuity or Lump Sum Payment for Retirees Withdrawal Benefits for Voluntary Severance Survivors' Lump Sum Benefits
Basis for calculation of benefits:	Individual Hypothetical Account Balance
Eligibility requirements:	Service length of 20 years or more and age 60 for annuity. More than 2 years of service for withdrawal of benefits for lump sum.
Benefits:	**Retirement pension** Accumulated Individual Hypothetical Account Balance divided by present value of annuity based on the assumed interest rate, payable for 5, 10 or 15 years. Benefit can be converted to lump sum. **Withdrawal benefits** Lump sum payment. Calculation formula is almost the same as for the retirement pension. **Survivors' benefits** Annuity payments or lump sum payment. Calculation formula is almost the same as for the retirement pension.
Financing method:	Pension funds are managed by life insurance companies and/or trust banks.
Employee contribution:	None

Example - Company 2

Group Term Life Insurance Plan:

Life insurance:	An amount equal to 24 times monthly salary Maximum: JPY 50,000,000 Minimum: JPY 1,000,000
Disability due to accident (rider):	A lump sum payment up to 100% of the insurance amount (Maximum of JPY 10 million).

Cash Balance Plan (New DB):

Types of benefits:	Annuity or lump sum payment for retirees Withdrawal benefits for voluntary severance Survivors' lump sum benefits
Basis for calculation of benefits:	Individual Hypothetical Account Balance
Eligibility requirements:	**Lump sum payments** For the current staff, after 1 year of service for involuntary termination, 2 years of service for voluntary termination (For new staff, 2 years of service for any cause) **Annuity payments** After 10 years of service (For new staff, 20 years of service)
Benefits:	**Retirement pension** 7.2% of Base Salary is given to each employee's Individual Hypothetical Account Balance as a pay-credit per month, with interest added to the balance. The accumulated total of pay-credits and interest until termination is paid as a retirement benefit, payable as whole life with 15 years certain if paid as a pension. (Benefits can be converted to a lump sum.) **Withdrawal benefits** Lump sum payment. Calculation formula is almost the same as for the retirement pension. **Survivors' benefits** Lump sum payment. Calculation formula is almost the same as for the retirement pension.
Financing method:	Pension funds are managed by life insurance companies and/or trust banks.
Employee contribution:	None

Useful links

Demographic information and macro-economic indicators
CIA World Factbook (please select the country to review)
World Bank Group (please select the country to review)

Ministry of Health, Labor, and Welfare
https://www.mhlw.go.jp/

Japan Health Insurance Association
https://www.kyoukaikenpo.or.jp/

Japan Pension Service
https://www.nenkin.go.jp/

More information on The Dai-ichi Life Insurance Company, Limited

Your Local Link to IGP in Japan:
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