

cost of old aged.

So, separate long-term care from medical care insurance system is in need.

- Separate long-term care services from medical care insurance system, and promote suitable revisions to make medical care "medical-treatment" oriented.
- Re-examine the inequalities of users costs associated with the separation of welfare for the elderly and medical care services for the elderly, and do away with so-called social hospitalization in ordinary hospitals, etc., when long-term care is the overriding need.
- Make elderly persons the policyholders, and have them bear the cost of premiums where possible.
- Introduce a fixed rate 10% charge for insured long-term care services.
- Admit the combination of services that are covered by medical insurance and those not covered by medical insurance. (Currently, such combinations are not allowed in medical care insurance.)
- Confirm benefit requirements, which are fair nationwide, in accordance with the required care certification standards for benefits.

3.2 Out line of the system

Out line of the system are as follows

(1) Insurers

- Insurers shall be municipalities and special wards, and the government, municipalities, medical care insurers and pension insurers shall provide multi-tiered support and assistance to them (Table 4).

(2) The insured, beneficiaries and premiums

See Table 5.

(3) Procedures for use (Figure 10)

- 1) Municipalities shall provide long-term care requirement certification and support requirement certification based on the screening judgement results of care need certification committee.

Care need certification committee will investigate the mental and physical condition of the insured person and make a screening judgement based on the opinions of a regular doctor. (The screening judgement can be entrusted to prefectures.)

- * Standards for long-term care requirement certification shall be uniformly and objectively determined nationwide.
 - Benefits which correspond to the level of long-term care required (a limit for benefits to be paid for in-home long-term care) will be determined.
- In-home benefits will be determined depending on the level of long-term care required (6 levels including Support-required).
 - 62,000 to 358,000 yen per month. (Amount differs with regions.)
- Facility benefits will also be determined in accordance to facility types, depending on the level of long-term care required.

Table 6

2) From the standpoint of providing comprehensive and planned service to accommodate the policyholder's demands, it is fundamental that a long-term care services plan (care plan) is decided.

(4) Insurance benefits

Persons requiring Long-term care and In-home service:

Home-visit long-term care, Home visit bathing, Home-visit rehabilitation, Commuting rehabilitation (Day care), Home-visit nursing care, Commuting for care (Day service), Rental service for welfare equipment, Short-term stay at a care facility Management and Guidance for in-home care Daily life care in communal living for the elderly of dementia. Care at the fee-charging homes for the elderly Purchase allowance for welfare equipment Allowance for modifying house (adding handrails, eliminating steps, etc.)

Persons requiring Long-term care and Services at facilities:

Welfare facilities for the elderly requiring long-term care [Special nursing homes for the elderly] Health care facilities for the elderly requiring long-term care Sanatorium type medical care facilities for the elderly requiring care

- Sanatorium-type wards
- Sanatorium-type wards for patients with senile dementia
- Hospitals with reinforced care services (3 years after enactment of the system)

Persons requiring support and In-home service:

Same as Persons requiring Long-term care and In-home service (excluding communal care for dementia patients)

(5) Costs

- 1) A fixed rate of 10%, and a standard charge for meals for inpatients of hospitals and clinics
- 2) When the 10% charge becomes large, an upper limit charge shall be set in accordance with high long-term care service cost.
- 3) Consideration will be given to persons with low incomes with respect to standard charges for meals and high long-term care services cost.

Table 7

(6)Expense

See Figure 11.

(7) Insurance premiums

- From the standpoint of having people bear the cost in response to their ability to pay, the insurance premium of Category 1 insured persons, in principle, shall be a fixed amount set by each municipality according to their income level. This will lighten the burden on people with low income, meanwhile people with high income is bearing expenses in response to their income.
- The insurance premium of Category 2 insured persons shall be calculated in response to the method used by their health care insurer. (The average cost per Category 2 insured person is the same)

See Table 5.

(8) Groundwork preparation

- 1) In order to promote infrastructure for a long-term care services to progress in a systematic manner, municipalities must determine their plans for insured long-term care services and prefectures must decide their plans respectively, based on fundamental policies decided by the government.
- 2) When municipalities are to plan or to charge the municipal plan for insured long-term care services, measures to reflect insured persons' opinions shall be taken.

- 3) Municipalities that have difficulty securing the standard levels of benefits for home services determined by the government, can make their level of benefits lower than the appropriate level, and raise it gradually to the level determined by regulations, within 5 years after implementation.

(9) Considerations for stabilizing system operations

<Considerations of financial aspects>

- 1) The government will provide subsidies equivalent to 50% of the administrative expenses incurred for the newly added matters of long-term care requirement certification etc.
- 2) Finance stabilizing funds shall be granted or loaned to prefectures, (the government, prefectures and Category 1 premiums shall each provide one third of the revenues), to make good financial deficits caused by increased payments resulting from benefits surpassing estimates, and declined rates of premium payments.

<Considerations of business implementation aspects>

- Prefectures may be entrusted, by municipalities, with the screening judgement matters of long-term care requirement certification. Prefectures shall support the joint establishment of care need certification committee for a number of municipalities.

(10) Implementation

April 1, 2000

(11) Considerations

- Necessary reconsideration and additional examination of the range of insured persons, levels and contents of benefits, ideal cost sharing of premiums and the long-term care insurance system in general, shall be carried out based on situational changes and social economic conditions.

The opinions of local community groups, etc. shall be given full consideration when investigating system reforms.

3.3 issues on LTC

Considerations will be held at the Long-term care insurance sub-committee of Social

Security Council, particularly on the following points as a way of revising the system within five years after the enactment of the Long-Term Care Insurance Law

- ① Scope of insured persons and recipients
- ② Content and level of insurance payments
- ③ Ideal level of insurance premium and payment burdens

4 Concluding: Lessons for KOREA

Pension scheme

Korean Pension issues are 1)collecting premiums, 2)fund shortage and so on. Aging problem is the same as Japan and other developed countries. Recent developed countries pension reforms are basically cutting benefit and fixing the contribution rate. Next step, we have an idea of pension.

There are various benefit formulas in the World. Germany and Sweden benefit formula are earnings related. Their pension schemes weight on income smoothing. That is, pension must related life-time earnings in those scheme. However, Canada and New Zealand public pension are flat-rate pension only, and Australia has public assistance only. In those countries, pension is safety net. The idea of income smoothing is expensive system. So, Germany's premium is near to 20percent and Sweden's 18.5 percent.

On the other hand, Korea and Japan have universal flat-rate pension insurance and employee's earnings-related pension insurance. This system is very expensive by Japan experience. Flat-rate pension has issue of incentive to participate in the scheme. Evading contribution on basic pension is major issue in Japan. To be sure, Korean evading is currently based on economical reason not incentive, however, this issue could occur in the future. On earnings-related part, it is very expensive to keep high incomes in the system. High incomes has many measure to built their asset and many are in work at aged time. Why that people's pension is in public system? Concerning flat-rate pension and earnings-related pension scheme, the UK system is good for lesson. In 1998, Green Paper *A new contract for welfare: partnership in pensions* was issued by the Labour Government. This Green Paper is the base of the recent UK pension reform. The new proposals are

- A) help people make better informed choices regarding their retirement;
- B) reaffirm the role and responsibilities of employers in the pensions partnership, improve saving through the workplace, and provide greater protection for members of occupational schemes;

- C) encourage simple and flexible savings products, broadening access to the financial services industry; and
- D) introduce measures to extend working lives.

With regard to A) and B), the UK Government replaced the State Earnings-Related Pension Scheme (SERPS) with the State Second Pension (S2P) to provide more generous pensions to those with low and moderate incomes, and for the first time, to provide a second pension to many carers and people with disabilities. Further, with regard to B) and C), the UK Government introduced stakeholder pensions that provide a good value, simple, and flexible vehicle for saving for retirement. The UK Government also reformed the regulatory framework for saving, replacing ten regulators with a single one—the Financial Services Authority (FSA)—enabling consumers to save with more confidence. Finally, with regard to D), the pension age was raised to 65 (In 2015 women's pension age was raised the same age 65). As a result, the UK Government's future pension expenditure understates and is sustainable in terms of cost. In 2050, state spending on pension for UK, Japan, Italy, and the US will be 4.1percent, 16.5percent, 20.3percent, and 7.0percent of GDP, respectively (Disney et al., 2003). Now, Korea does not need to learn from Japan but from UK.

LTC Scheme

In Japan, the most important reason for introducing LTC is cutting the payment for old-age in medical field. It is very expensive to treat old age in dementia or stroke aftermath in medical field. As noted above, Japanese doctor's wage is very high and Japanese doctor's committee has very strong political power. The price of medical field is not under control of ministry of health, labour and welfare. If no LTC insurance in Japan, cost of old-age health insurance has no ceiling. In the aspect of cost, Korean Government control old-age medical cost, Korea does not need LTC insurance. To be sure, in the service quality of LTC, it's good idea to introduce LTC in Korea. The LTC technique is apart from medicine.

To be sure, disease management is also important. Since 1998, "Healthy Japan 21Century" program is promoting in Japan. That program is to protect diabetes or some chronical disease to use goal with figures, "walking 10000 of steps per day", "drinking less than 360ml a day and no drinking at least three days per week " and so on. In the re-habilitation field, some municipalities introduced gymnastic program for old age to prevent falling.

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Appendix1 2004 pension reform

□ Basic Concept for Reform

1. Building a sustainable system matched with socio-economy and ensuring reliability for the system

- Preventing future working generations from excessive burdens and ensuring appropriate benefit levels of pension for elderly people
- Building a sustainable system that can flexibly match with socio-economic fluctuations and that does not need frequent institutional reforms

2. Building a system that matches with diverse patterns of life and work

- A new system needs a flexible institutional mechanism which allows diverse patterns of life and work and which assesses diverse patterns of working contribution to the pension system

□ Prospects for Benefits and Burdens

1. Raising the national subsidy of the basic pension

- In principle, the national subsidy proportion of the basic pension is raised to 1/2. (The rise begins in fiscal 2004, which will continue into an appropriate level in fiscal 2005 and 2006, and will complete in fiscal 2009. The necessary provisions are defined in supplementary regulations.)

2. Enforcing financial verification

- The current condition of pension finance and its 100-year-long financial balance period will be verified at least once every five years.

3. Introducing the premium level fixed system

(Introduction of the premium level fixed system)

- The fixed system will have a mechanism that automatically adjusts benefit levels within the revenue from premiums after future premium levels for the Employees' Pension and the National Pension are fixed.

(Premium for the Employees' Pension)

- The premium rate for the Employees' Pension is raised by 0.354% every year from October 2004, which will be set to 18.30% in fiscal 2017 and onward.

(Premium of the National Pension)

- The monthly premium for the National Pension is raised by ¥280 (value for fiscal 2004) every year from April 2005, which will be fixed at ¥16,900 (value for fiscal 2004) in fiscal 2017 and onward.

(Introduction of micro-economy indexation)

- The growth of the entire social premium bearing capacities is reflected in the pension revision rate to adjust benefit levels (macro-economy indexation). (However, the lower limit is adjusted up to the nominal amount, which remains fixed.)

[Macro-economy indexation]

- Revision rate of new beneficiaries: Growth rate of after-tax income - Indexation adjustment rate
- Revision rate of existing beneficiaries: Growth rate of prices - Indexation adjustment rate
- * Indexation adjustment rate: Decrease in the number of insured persons of the entire public pension + Fixed rate after the growth rate of the average pension benefit period (average life expectancy) is considered.

- The benefit level for a household of the standard Employees' Pension (including the basic pension of a husband & wife couple) will exceed at least 50% of the average income of working generations.

□ III. Introducing System That Meet with Diverse Patterns of Life and Work

1. Reviewing the old-age pension system for active workers

- Concerning the old-age pension system for insured employees in their early 60s, the 20% benefit suspension during the working period is discontinued.
- Concerning Employees' Pension benefit of insured employees aged 70 years

old or older, when the total of bonuses and the Old-Age Employees' Pension exceeds the average income of working male insured employees, like the insured employees in their late 60s, the benefit of all or part of the Old-Age Employees' Pension is discontinued. (But no insurance premium is required.)

○The benefit of the Old-Age Employees' Pension for persons aged 65 or older is postponed.

2. Expanding the application of Employees' Pension to part-time workers

○To meet with increasing working patterns, the revised pension system will be reviewed after five years of enforcement, and necessary measures will be taken accordingly. The review will be made to reinforce the pension security of insured employees and to promote fair burdens among corporations while socio-economic conditions, impacts on employment and on corporations for which many part-time workers work are taken into consideration. The revised pension system will have a mechanism neutral to corporations and employment patterns of insured employees as much as possible.

3. Booting next-generation fosterage support measures

○Until a baby grows to three years old,

①Premiums are exempted during the child-care leave period

②When the standard remuneration is lowered due to a shorter working period, a measure is taken to maintain the amount of future pension based on the standard remuneration

4. Women and pension

(1) Division of the Employees' Pension for the period of third insured person

○The premiums borne by an insured person who has a dependent spouse are basically regarded as through the insured person and the dependent spouse had jointly borne the premiums.

○For the period of the third insured person (period after introduction), when a third insured person divorces the spouse or when a situation takes place that requires the division of pension according to an ordinance of the Ministry of Health, Labour and Welfare, the Employees' pension (in the premium contribution record) of the spouse may be divided into half.

(2) Division of the Employees' Pension upon divorce

○The Employees' Pension of a divorced couple may be divided when the divorced spouse agrees to do so or when the court decides to do so (up to half of the pension

in the premium contribution record for the period of marriage).

(3) Reviewing the Survivors' Pension system

○A mechanism will be introduced so that the difference between the existing survivors' benefits and the Employees' Pension benefits is provided as Survivors' Employees' Pension, in addition to the full benefit of Old-Age Employees' Pension.

○Providing the Survivors' Employees' Pension is limited to five years for the surviving spouse of less than 30 years old with no children. The target for providing extra benefits for a middle- and old-age widow is applied to a widow who was 40 years old or older when her husband died.

5. Improving the Disability Pension

○The disability Basic Pension and the Old-age Employees' Pension or the Survivors' Employees' Pension may be provided concurrently.

□ IV. Other Revised Pints

1. Reinforcing measures to collect premiums for the National Pension

○Institutional measures are introduced to collect premiums for the National Pension, including the enforcement of a multiple-stage exemption system according to income, contribution moratorium for youth who are facing difficulty for employment opportunity, easy access to necessary income information from municipalities, and other measures.

2. Working on the promotion for the understanding of the pension system

○Individual pension information, such as premium contribution record and the amount of pension to be provided in the future, is reported to insured persons periodically (point system.)

3. Special notification measure for the third insured persons

○The revised pension system allows third insured persons in the past to notify the component authorities about their non-reporting periods. The period to notify shall fall into the period that insured persons already contributed premiums.

4. Canceling the price indexation special measure (1.7% portion)

○The price indexation special measure (1.7% portion) for the past three years will be cancelled under rising price circumstances after fiscal 2005.

5. Revising the special measure pension of the former Mutual Aid Associations of Agriculture, Forestry and Fishery Corporation Personnel

○ The special measure pension of the former Mutual Aid Associations of Agriculture, Forestry and Fishery Corporation Personnel will be revised so that the pension system reflects falling price conditions in the amount of pension.

□ **Corporate Pensions**

1. Stabilizing the employees' pension fund

○ Exemption premiums are unfrozen, and accordingly special measures (three years only), such as separate contributions and special measure for contribution amounts, will be introduced.

2. Improving the defined-contribution pension

○ The revised pension system will raise contribution limits (with a cabinet order) and relax the requirements for halfway withdrawals.

3. Improving the portability of corporate pensions

○ The revised pension system allows an insured person to transfer his pension fund among the employees' pension fund and the defined-benefit corporate pensions. If this transfer is difficult, the Corporate Pension Association (renamed from the Pension Fund Association) will take care of the insured person so that he can receive benefits as pension. In addition, the revised pension system allows an insured person to transfer his pension fund to the defined-contribution pension from the employees' pension fund and defined-benefit corporate pensions.

Table 1 Future Perspective on Social Security Benefits and Burden (estimated in May 2004)

	FY 2004 (based on budget)		FY 2010		FY 2015		FY 2025	
	Trillion yen	To NI %	Trillion yen	To NI %	Trillion yen	To NI %	Trillion yen	To NI %
Social security benefit expenditure	86	23 1/2	105 (110)	25 1/2 (26 1/2)	121	27	152 (176)	29 (31 1/2)
Pension	46	12 1/2	53 (58)	13 (14)	58	13	64 (84)	12 (15)
Medical care	26	7	34 (35)	8 (8 1/2)	41	9	59 (60)	11 (11)
Welfare, etc.	14	3 1/2	18 (17)	4 1/2 (4)	21	5	30 (32)	6 (5 1/2)
Long-term care	5	1 1/2	9 (8)	2 (2)	12	2 1/2	19 (20)	3 1/2 (3 1/2)
Social security-related burden	78	21 1/2	100 (104)	24 (25)	119	26 1/2	155 (180)	29 1/2 (32 1/2)
Insurance contributions	52	14	64 (67)	15 1/2 (16)	75	17	96 (116)	18 (21)
Public burden	26	7	36 (37)	9 (9)	43	9 1/2	59 (64)	11 1/2 (11 1/2)
National income	366	-	414 (414)	- -	448	- -	525 (557)	- -

Notes:1. Figures in parentheses are those estimated in May 2002 (in the case of the government share of contributions to basic pensions' being 50%)

2. Simply adding the ratio (29 1/2%) of social security-related burden to national income in FY 2025 shown in this estimate to the recent ratio (approx. 26 1/2%*) of expenditures other than social security out of the national and local governments' burden of tax and financial deficit to national income comes to a grand total of approx. 56%.

(*)Approx. 26 1/2%=Burden to tax (23.1%)+Financial deficit (9.6%) – social security-related public burden (6.4%)

Note: Each ratio (%) is the average values of FY 1997-2001 (to national income ratio)

Table 2
Age Structure of Population by Country

Country	(%)					
	2000			2030 (projection)		
	0-14 years	15-64	65 and over	0-14 years	15-64	65 and over
Switzerland.....	16.7	67.3	16.0	13.5	56.7	29.8
Japan.....	14.6	67.9	17.3	11.3	59.2	29.6
Italy.....	14.3	67.6	18.1	11.7	60.0	28.2
Germany.....	15.6	68.1	16.3	14.0	59.6	26.4
Sweden.....	18.3	64.3	17.4	16.0	58.8	25.2
Canada.....	19.0	68.4	12.6	15.0	61.3	23.7
France.....	18.8	65.2	16.0	16.4	60.0	23.6
U.K.	19.1	65.1	15.9	16.4	62.5	21.1
Korea, Rep. of.....	20.9	72.0	7.1	13.9	65.1	21.0
Australia.....	20.5	67.2	12.3	16.7	62.5	20.7
U.S.A.	21.8	65.9	12.3	19.3	61.5	19.2
China.....	24.8	68.3	6.8	17.2	66.8	16.0
Brazil.....	29.3	65.5	5.2	19.8	67.6	12.6
India.....	34.1	60.9	4.9	23.1	67.6	9.4

Source: United Nations; Statistics Bureau, MPHPT; Ministry of Health, Labour and Welfare.

Table 3
Pension insured

No.1 insured person	No.2 insured person	No.3 insured person
<input type="radio"/> Self-employed persons, farmers, etc. aged 20 or over but under 60. <input type="radio"/> Each pays a fixed amount of premium. 13,300 yen per month	<input type="radio"/> Employees in private sector, public employees, etc. <input type="radio"/> Remuneration-based premium. Premium rate of the Employees' Pension Insurance is fixed at 13.58% [Appropriated for the Basic Pension and Employees' Pension Insurance Scheme (remuneration-based portion) for No.2 and No.3 insured person] <input type="radio"/> Employers and employees bear evenly the premium.	<input type="radio"/> Spouses of employees in private sector and public employees, etc. <input type="radio"/> The insured themselves bear no cost. <input type="radio"/> The premium is paid by the insurer of the pension the husband (wife) is participating in.

- The National Treasury will fund one third of the Basic Pension.
- Number of persons eligible to receive public pensions (as of the end of March 2002) 29.51 million
- Total amount of pensions paid to persons receiving public pensions (FY2001) 40.7840 trillion yen

Table4 LTC insured, beneficiaries and premiums

	Category 1 insured persons	Category 2 insured
Eligible persons	Persons aged 65 or over	Persons aged 40 years or over but less than 65 who are medical care insurance policyholders
Beneficiaries	<ul style="list-style-type: none"> • Persons requiring long-term care (bedridden, dementia) • Persons requiring support physically weak) 	People included in Category 1 who suffer from age-related illnesses, such as the early stages of dementia,
Bearer of premiums	Collected by municipalities	Collected as medical care premiums by medical care
Method of assessment and collection	<ul style="list-style-type: none"> • Fixes premiums per income bracket (premiums for persons with low incomes shall be reduced) • For who receive over 180,000 yen of old-age retired pension, 	<ul style="list-style-type: none"> • Health insurance: standard fee • National insurance: divided proportionally

Table5 Insures premium

Level	Eligible Persons	Premium	(Ref.) Estimated percentage of eligible persons
1	<ul style="list-style-type: none"> • Public assistance recipients • Municipal tax-exempted households and Old-Age Welfare Pension recipients 	Basic amount × 0.5	Approx. 2%
2	Municipal tax-exempted households	Basic amount × 0.75	Approx. 33%
3	Municipal tax-exempted persons	Basic amount × 1	Approx. 39%
4	Municipal tax payer (The insured person's total amount of income is less than 2,000,000)	Basic amount × 1.25	Approx. 17%
5	Municipal tax payer (The insured person's total amount of income is 2,000,000 yen or more)	Basic amount × 1.5	Approx. 9%

Table 6 Limit for benefits paid for in-home long-term care service

Support required	6,150 unit/month
Care level 1	16,580 unit/month
Care level 2	19,480 unit/month
Care level 3	26,750 unit/month
Care level 4	30,600 unit/month
Care level 5	35,830 unit/month

* 1 unit = 10 – 10.72 yen (Differs with regions and services)

(Note) Limit on benefits paid for in-home long-term care services had been set for two types, home-visit service and short-stay service, until December 2001. These were converted into a single type to improve the variety of services and procedure convenience in January 2002.]

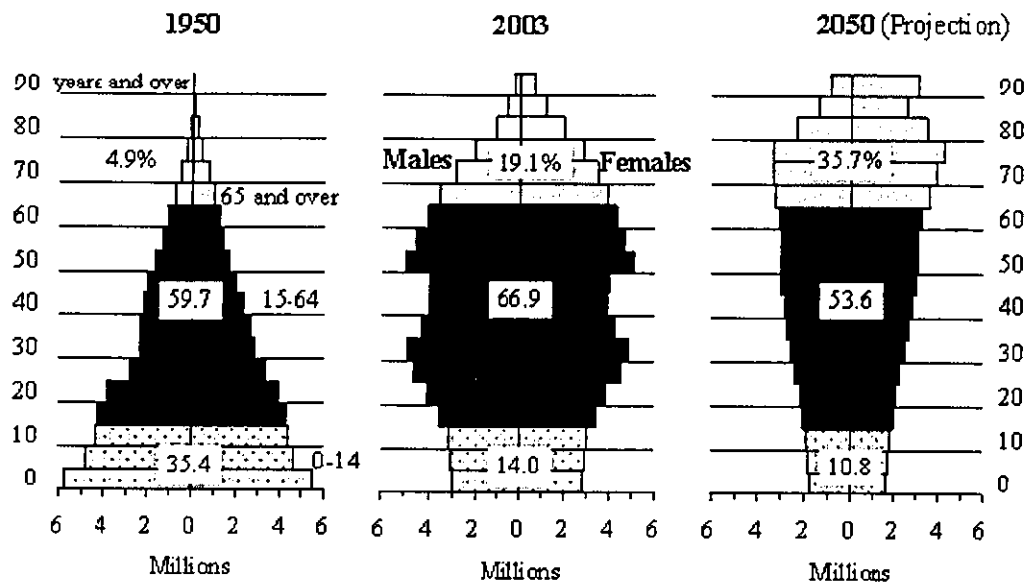
Table 7 High-cost long-term care service and standard charges for meals

	Upper limit of 10% charge covered by high long-term care service cost	Standard charges for meals
Non-low income persons	37,200 yen/month	23,400 yen/month (780 yen/day)
Municipal tax-exempted	24,600 yen/month	15,000 yen/month (500 yen/day)
Old-Age Welfare Pension recipients, etc.	15,000 yen/month	9,000 yen/month (300 yen/day)

* Reduction and exemption measures for costs during the 5-year period following implementation, for persons resident in special nursing homes for the elderly at the time of implementation, shall be negotiated in response to their ability to pay.

Figure 1

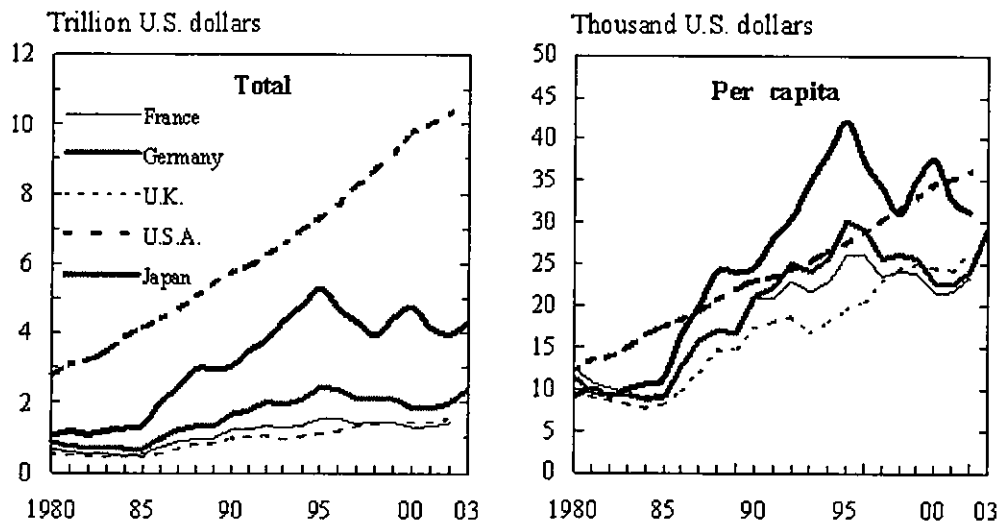
Changes in the Population Pyramid



Source: Statistics Bureau, MPHPT; Ministry of Health, Labour and Welfare.

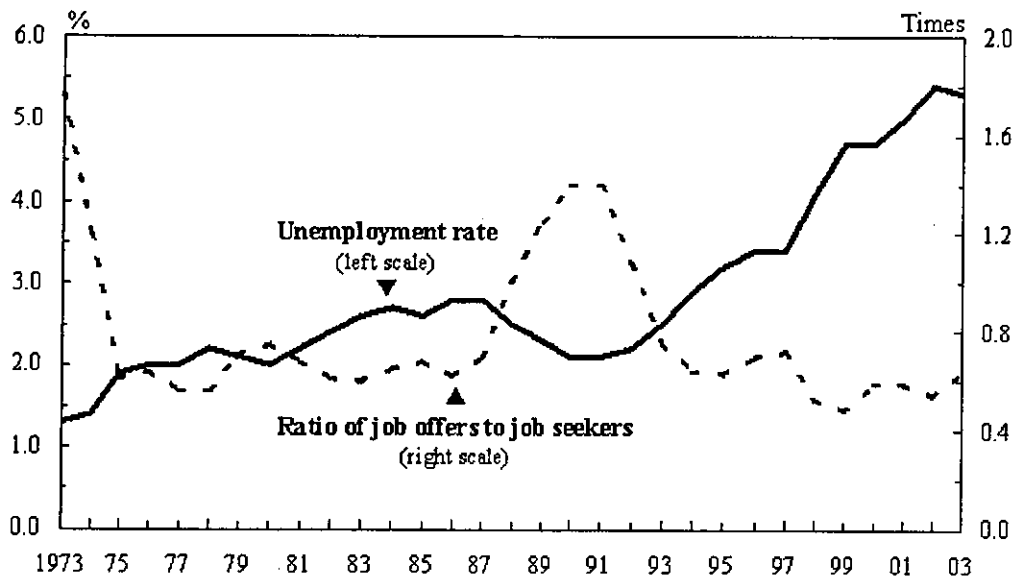
Figure 2

Gross Domestic Product (at current prices and exchange rates)



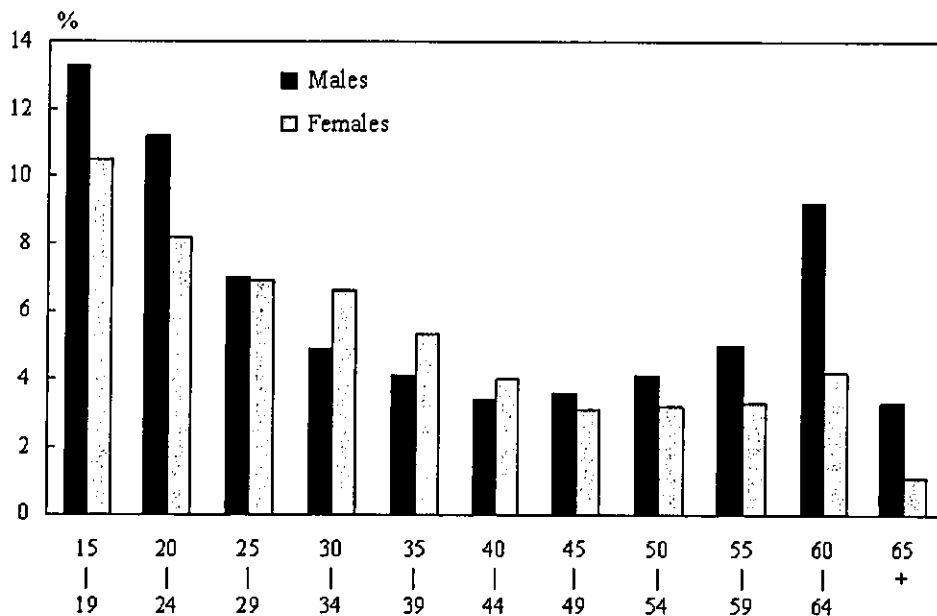
Source: OECD.

Figure 3
Unemployment Rate and Ratio of Job Offers to Job Seekers



Source: Statistics Bureau, MPHFT, Ministry of Health, Labour and Welfare.

Figure 4
Unemployment Rates by Sex and Age (2003)



Source: Statistics Bureau, MPHFT.

Figure 5

Structure of the Current Pension System

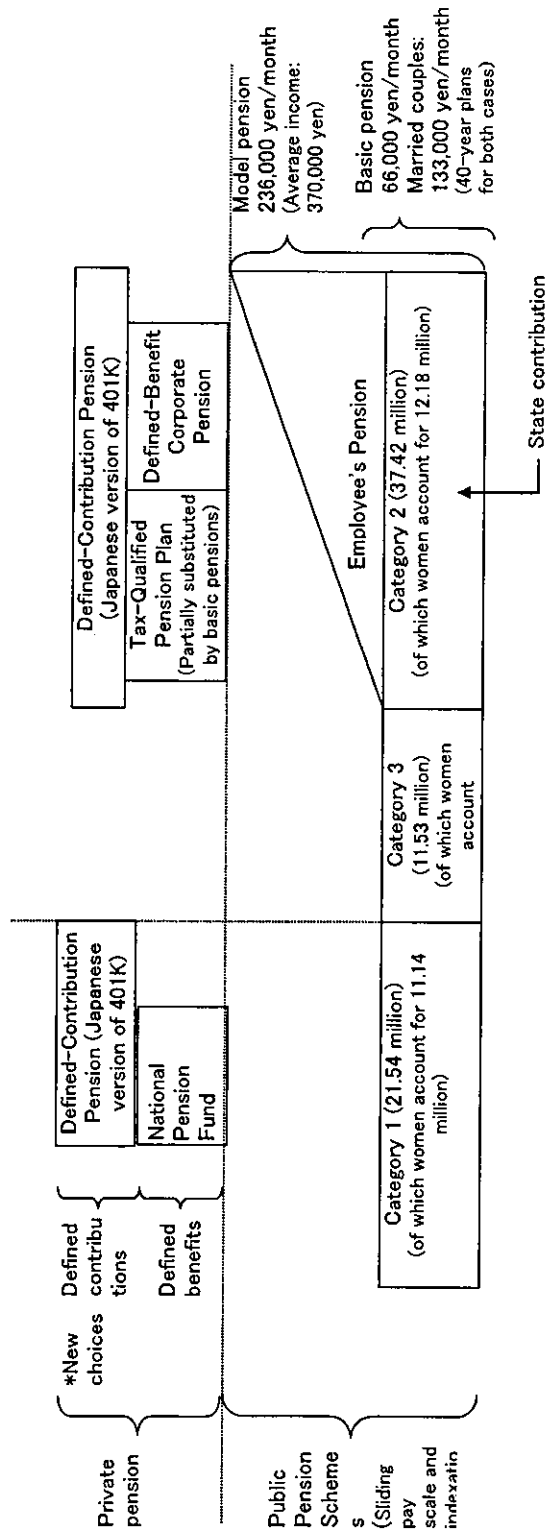


Figure 6

Working Generation

○ Number of persons insured by the National Pension (as of fiscal 2002 end)
70,460,000 persons
 Number of the first insured persons:
 22,370,000 persons (11,210,000 women)
 Number of the second insured persons:
 36,850,000 (12,240,000 women)
 Number of the third insured persons:

Elderly

○ Number of eligible recipients (as of fiscal 2002 end)
30,760,000 persons
 (approx. 1/4 of the Japanese people)

Premiums
¥26.3 trillion
 (about 7% of the national income)
 (Fiscal 2002)

Pensioning
 (Recipients' total pensions)

¥42.3 trillion
 (about 12% of the national income)

National Pension: ¥13.1 trillion
 Employees' Pension: ¥22.7 trillion
 Mutual Aid Pension: ¥6.5 trillion
 (as of fiscal 2002 end)

cf. General expenditures
 (fiscal 2004 budget)

Pension System

National Pension
 Employees' Pension
 Mutual Aid Pension

Assets of pension reserve
 (on a current price basis, including profit and loss of succession to the assets of the Employees' Pension and the National Pension for fiscal 2002)

¥141.5 trillion

→ (Under transfer into operation in the market since fiscal 2001)



National government, etc.

National subsidy of pension
 (fiscal 2002 performance)
¥6.0 trillion