

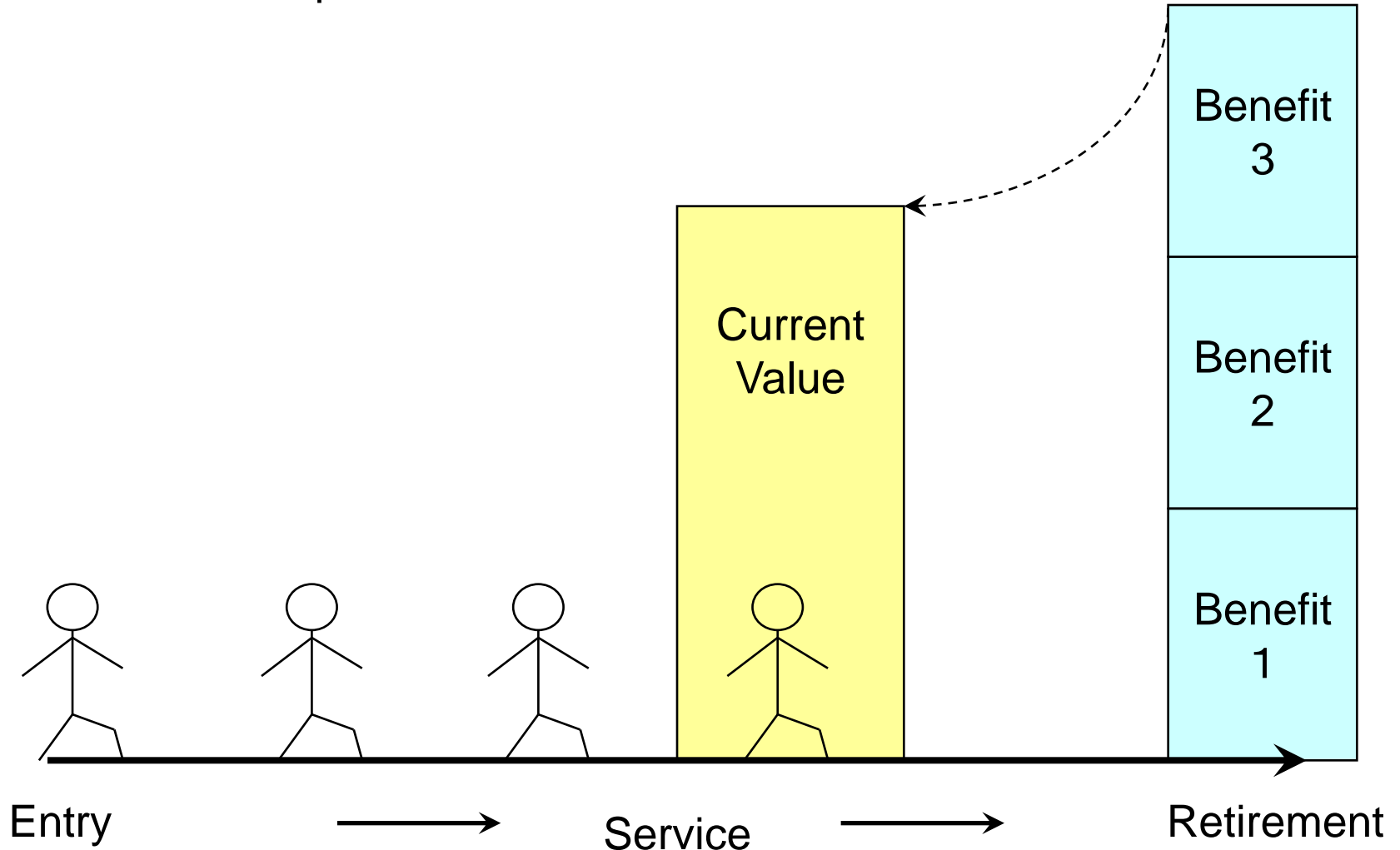
# **For an Innovation of Pension scheme**

**(October 14<sup>th</sup>, 2009)**

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Certified Pension Actuary of Japan**

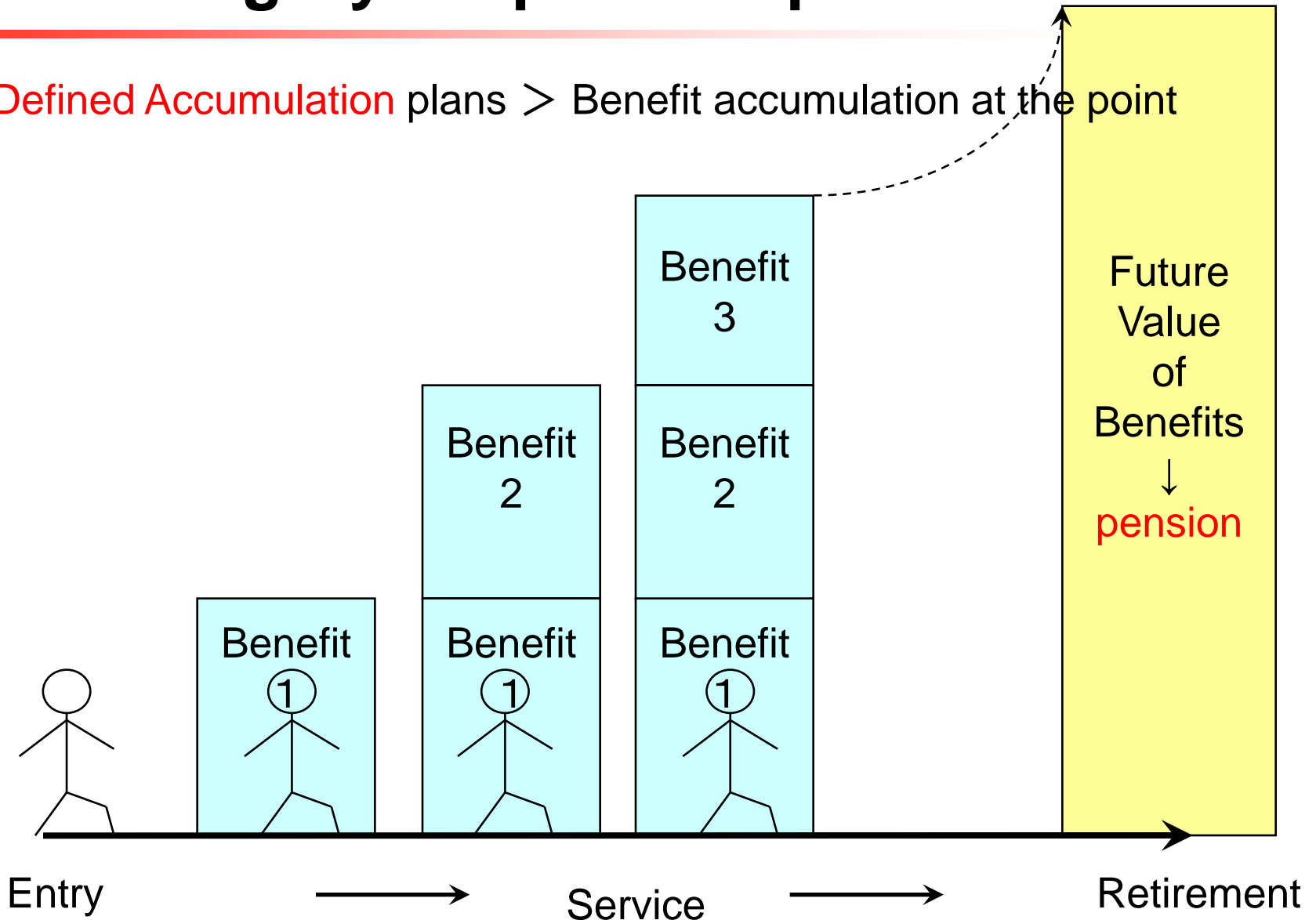
# New category for pension plans

1. Traditional DB plans > Benefit accumulation at retirement

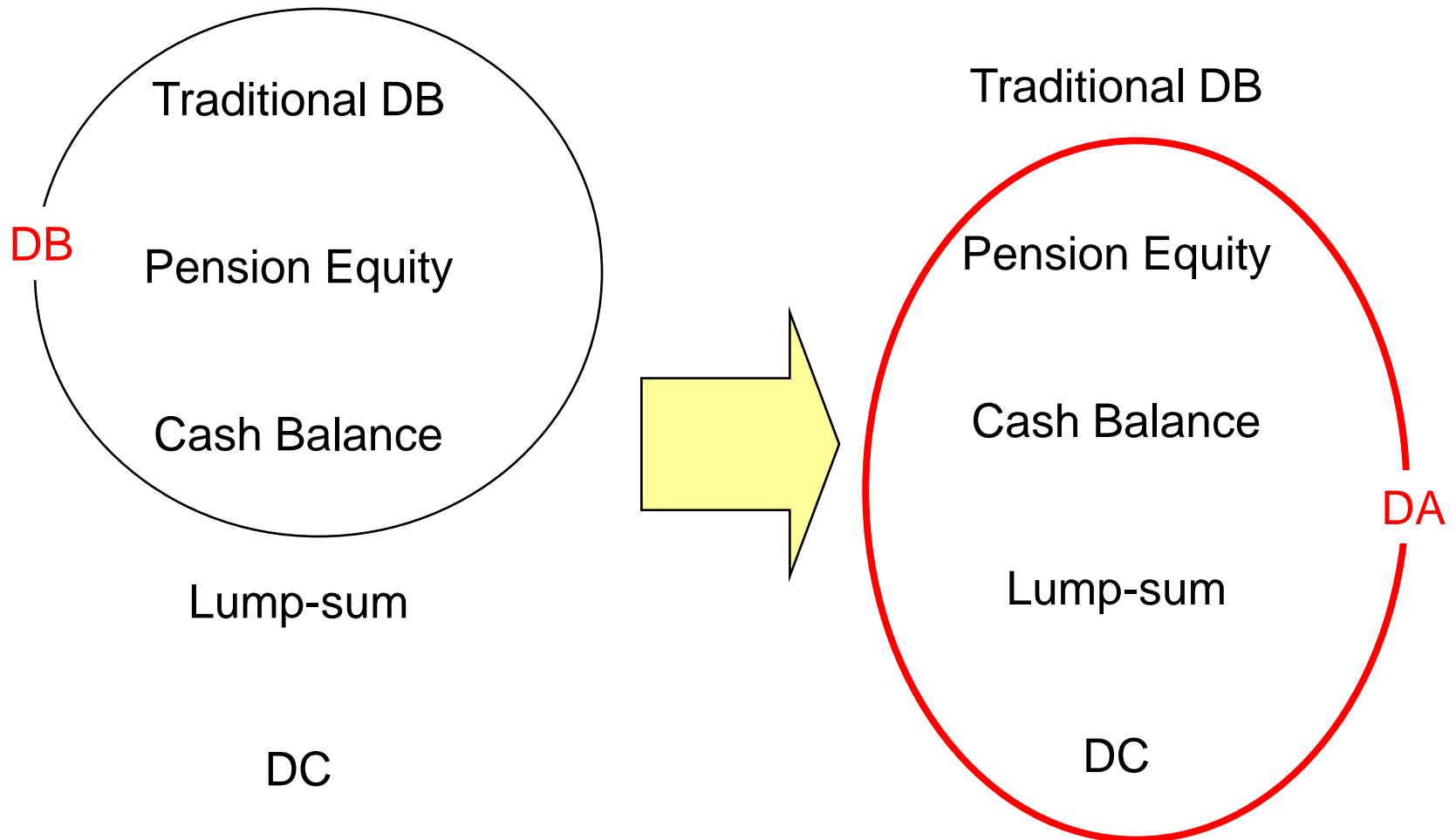


# New category for pension plans

2. **Defined Accumulation** plans > Benefit accumulation at the point



### 3. Categorizing pensions under the new category



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#### 4. Risk sharing between employers and employees under DA plans

For Example,

(1) **Flexible combination** of DB (DA-type) and DC plans

- The employer can change contributions to DB and DC within the prefixed range under plan document.

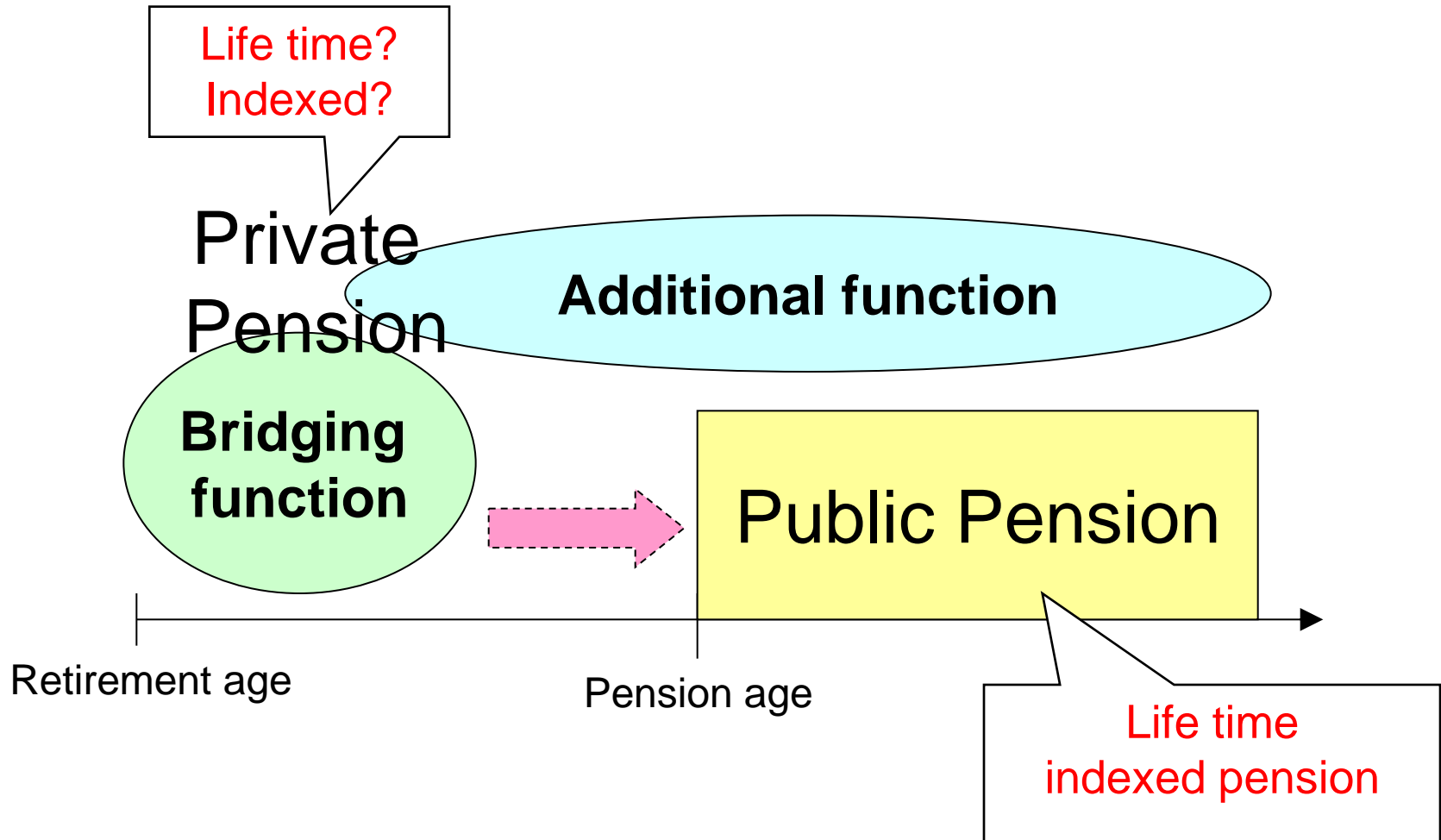
→ This may avoid closing or freezing of DB plans

(2) **Participants- directed investment** in DB (DA-type) plans

- The investment of the pension fund is decided periodically (such as quarterly) under the choices of participants that will define benefits.

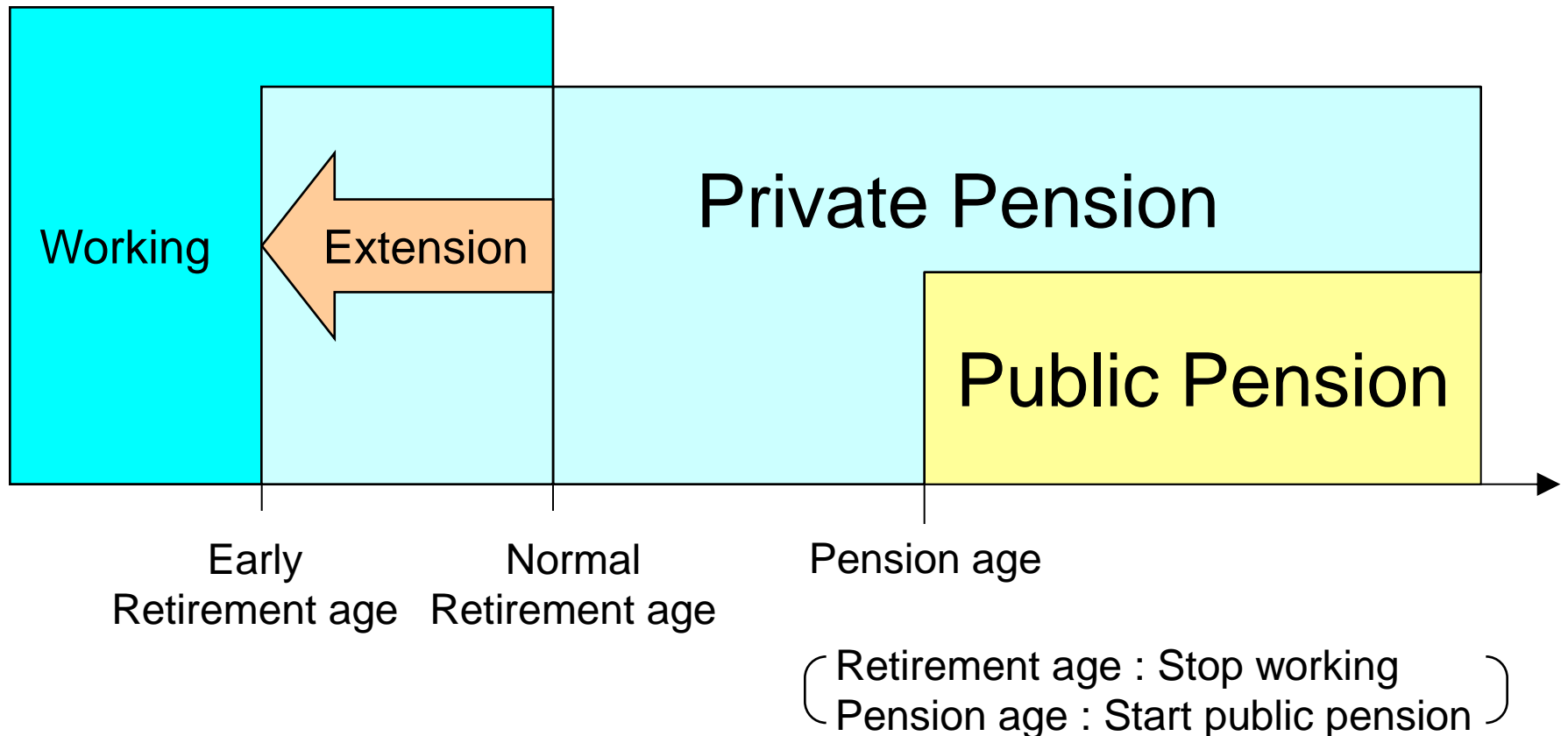
→ This may reduce the investment risk.

# Relationship between private and public pensions



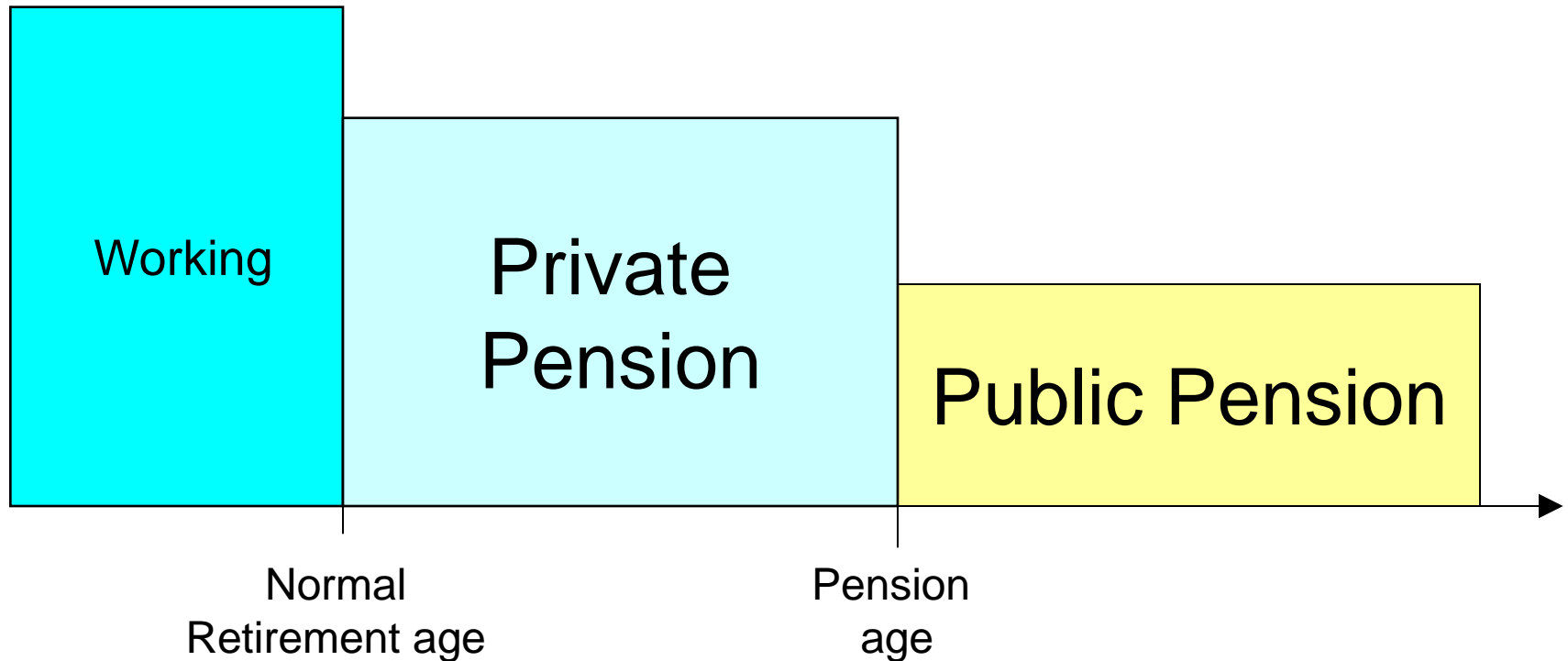
# Combination of private and public pensions

## Ideal combination of private and public pensions in the 20<sup>th</sup> century (**Horizontal** combination)



# Combination of private and public pensions

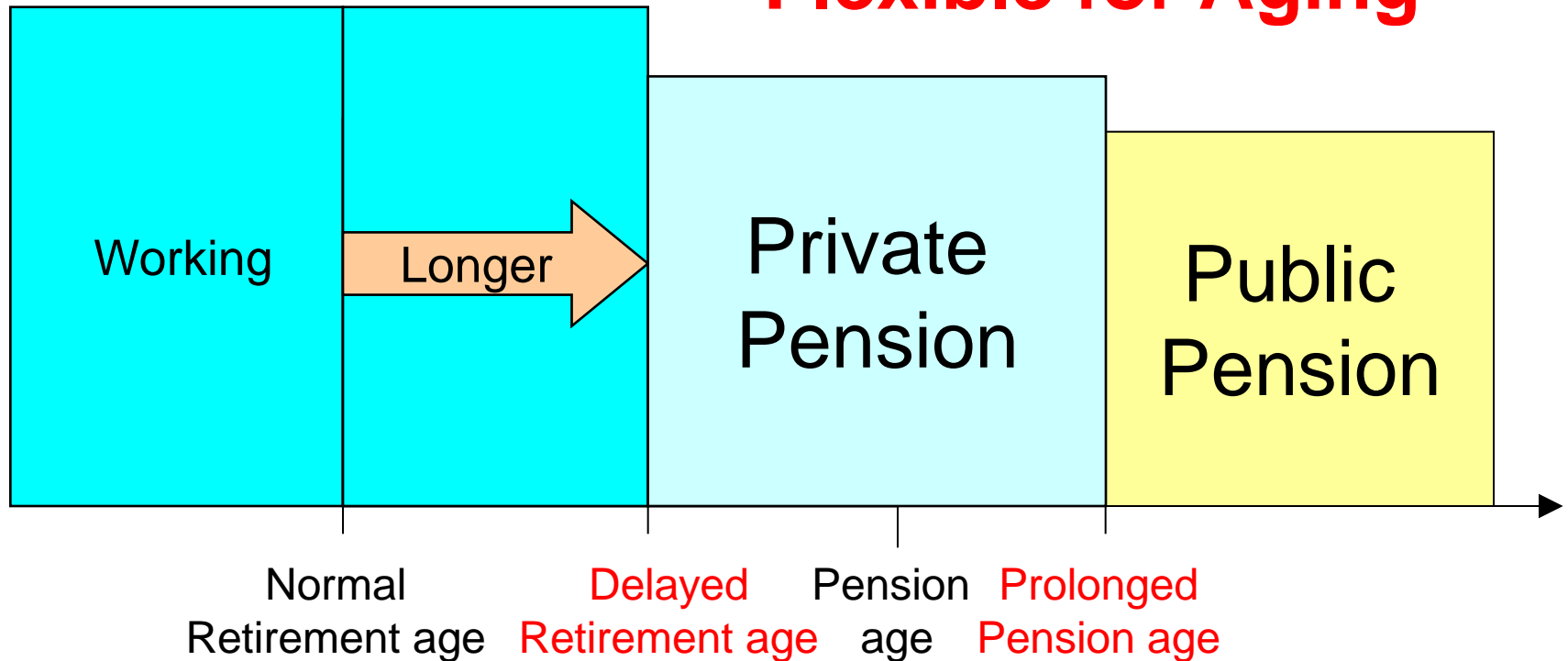
Conceptual combination of private and public pensions  
for the 21<sup>st</sup> century (**Vertical** combination)



# Combination of private and public pensions

Conceptual combination of private and public pensions for the 21<sup>st</sup> century (**Vertical** combination)

**Flexible for Aging**



# Combination of private and public pensions

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Under the **Vertical** combination

**Working longer and delaying retirement will result to:**

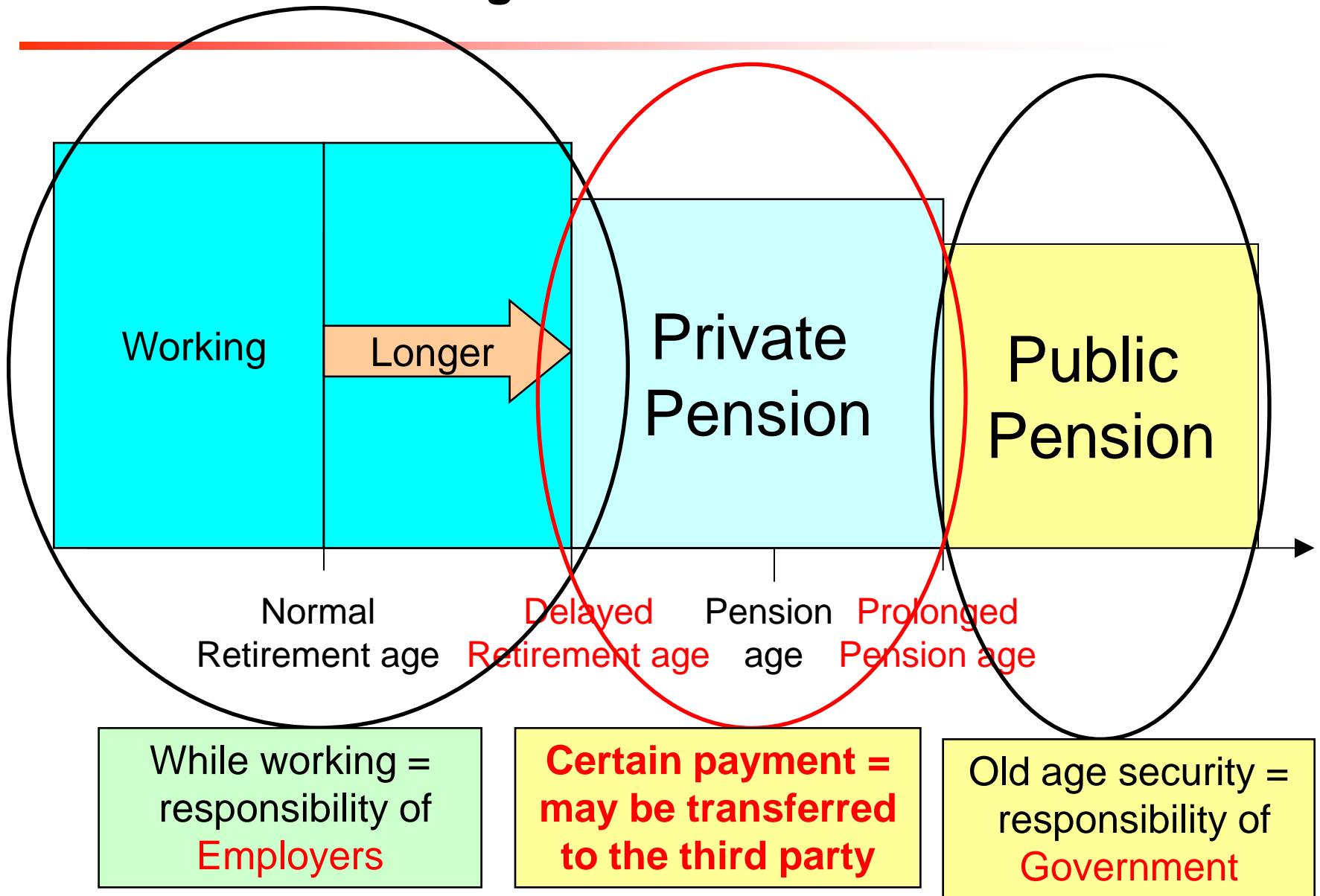
## **1. Increase Public pension benefit**

- For example, in Japan, pension benefit can grow at 8.4% per 1 year delay.
- In spite of the increase, pension finance may be improved by decreasing payment period.

## **2. Make Private pension unnecessary to be a life-time pension because of 1.**

- It is much easier to handle fixed period pensions
- Indexation may be restricted depending on payment period.

# New burden sharing under the **Vertical** combination



**Transfer to the third party of limited period pensions may be easy by using financial technology.**

Simple Example: Use of Housing Loans (Mortgages) to pay pensions

