Reform of Compensation System in Japan
—From 2005 to the Future—

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1. Overview of Current Compensation System in Japan

Recommendation of National Personnel Authority

- There are certain restrictions on the constitutional basic labor rights of civil service in the regular service and their participation in the determination process of their working conditions is limited.

- The National Personnel Authority (NPA) Remuneration Recommendation System is provided as a compensatory measure to offset the restrictions.
1. Overview of Current Compensation System in Japan

Survey of Remuneration in the Private Sector

Surveying enterprises with 50 or more employees on the corporate scale and establishment scale basis (covers approx. 65% of all employees in Japan)

Survey of Remuneration of Civil Service

Individual Remuneration of 274,000 employees (as of FY2010)

Comparison of Remuneration and Bonus between the Private Sector and Civil Service

Monthly Salaries are compared between those who have equivalent jobs, position, working area, educational background, age, etc., by the Laspeyres Formula
Based on the result of the Comparison, NPA makes a draft of Revisions in Salary Schedules and Allowances based on the principle of Meeting Changing Conditions (i.e. Principle of following the change of working condition in the Private Sector)

1. Overview of Current Compensation System in Japan

Process of Recommendation (Cont.)
1. Overview of Current Compensation System in Japan

Compensation of Civil Service is comprised of three pillars: Salary, Allowances and Bonuses.

Detailed Outline of the Remuneration of Civil Service

- **Salary = Base Salary of Civil Service.**
- **Allowances =** Family allowance, Housing Allowance, Commuter Allowance, Overtime Allowance, Area Allowance (paid to those who serve in areas where the cost of the living is particularly high, such as Tokyo or Osaka), Managerial Allowance (paid to who are in supervisory positions, such as the director of the division), etc.
- **Bonuses =** End-of-Term Allowance (fixed amount) and Diligence Allowance (amount varies based on the performance)

Average Compensation of public employees

JPY 6,339,000 annually (as of FY2010, For Administrative Service (I), average age of 41.9. After revision based on recommendation)
2. Reform of Compensation System since 2005

Background: 2005 NPA Recommendation (excerpt)

- In order to promote efficient personnel management while maintaining the morale of employees, it is necessary to build a remuneration system that would restrain the factors of a seniority-based remuneration increase, and to ensure appropriate remunerations in accordance with each official duties and responsibilities or performance results.

Main Point of Reform

- Reflect local wage levels in public employee remuneration
- Restraining seniority-based increase of remuneration
- Reflection of working performance in remuneration
In order to better reflect the difference of the wage level among regions in remuneration of national public employees, the government lowered the average salary level by 4.8% and introduced Area Allowance to increase the salary level of public employees in high-income region.

This Reform was gradually implemented from FY2006 to FY2010.
II. Restraining seniority-based wage increase and flattening salary curve

In order to flatten the salary curve of public employees, the Government reduced salary level of middle and upper age public employees by 7%, whereas that of young public employees was kept unchanged.

(Implemented since FY2006)
3. Detail of Compensation System Reform

III. Reflection of working performance in remuneration

In order to better reflect working performance in pay-step increases, the Government divided existing 1 pay step into 4 steps to make pay-step increase more flexible. And the Government consolidated the regular step increase and the special step increase into the new one based upon actual performance.

(Implemented since 2006)
4. Future of Compensation System

Establishing Autonomous Labor-Management Relationship and pay revision based on the labor-management negotiation

Excerpt of Cabinet Decision Concerning the Pay Revision of Public Employees (November 1, 2010)

Concerning the pay revision of national public employees, the Government will submit the legislation necessary for introducing autonomous labor management relations and pay revision based on the labor-management negotiation to the Diet at the next ordinary session.
4. Future of Compensation System

Issues concerning pay revision based on the labor-management negotiation

- How the Diet involve in negotiation and how to delegate authority over labor negotiations (balance with financial democracy)

- The scope of employees to be given labor rights

- The scope of matters open for negotiations and determined in collective agreement

- Preparation of organizations that have the authority to negotiate on the side of employers

- How to secure the authenticity of employee organizations’ representation
4. Future of Compensation System

- After the establishment of Autonomous Labor-Management Relationship, the compensation system of public employees shall be designed through labor-management negotiation.

The huge government debt (170% of GDP as of FY 2008) and deficit in government budget (9.3% of GDP as of FY 2010) places strong downward pressure to the compensation of public employees.

Currently, future shape of the compensation system is unclear. But, as a whole, level of compensation for public employees will be lowered to some extent.
Thank You for Your Attention!

If you have any questions, please mail to y.yokomori@soumu.go.jp