

Proposal for Reshaping the Social Security System

November 20, 2012

Keidanren

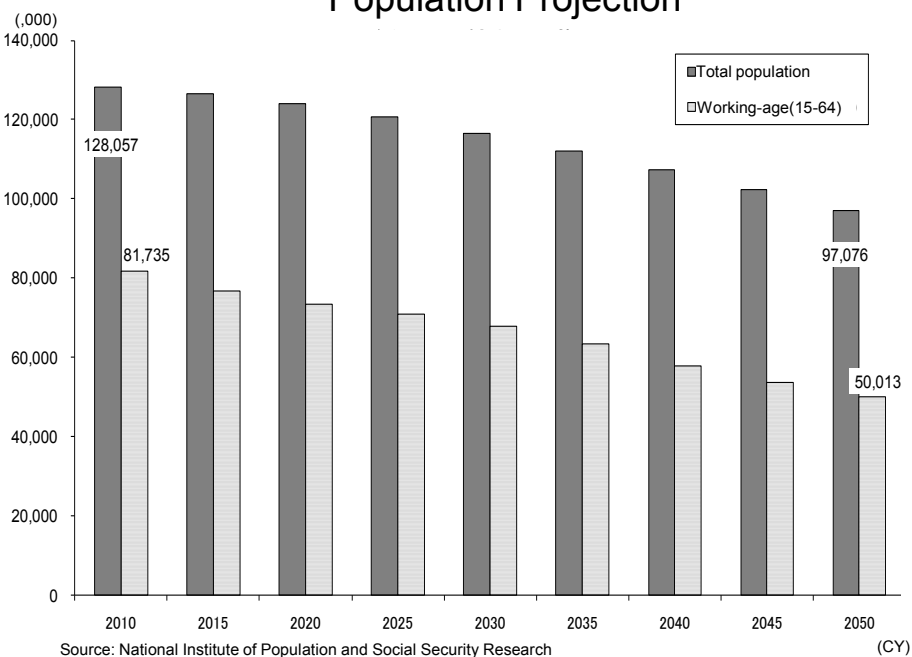
I. Introduction

- **Eight laws have been passed relating to the comprehensive reform of social security and taxation systems.**
- **Keidanren welcomes the decision to raise the consumption tax rate in stages, to 8% in April 2014 and 10% in October 2015, with a view to securing a stable source of revenue to fund social security benefits.**
- **However, many social security reforms that should be integrated with the consumption tax rise have been postponed.**
- **As the National Council for Reform of the Social Security System begins to deliberate key changes, the business community calls upon the government to reshape social security systems while also achieving sustainable economic growth.**

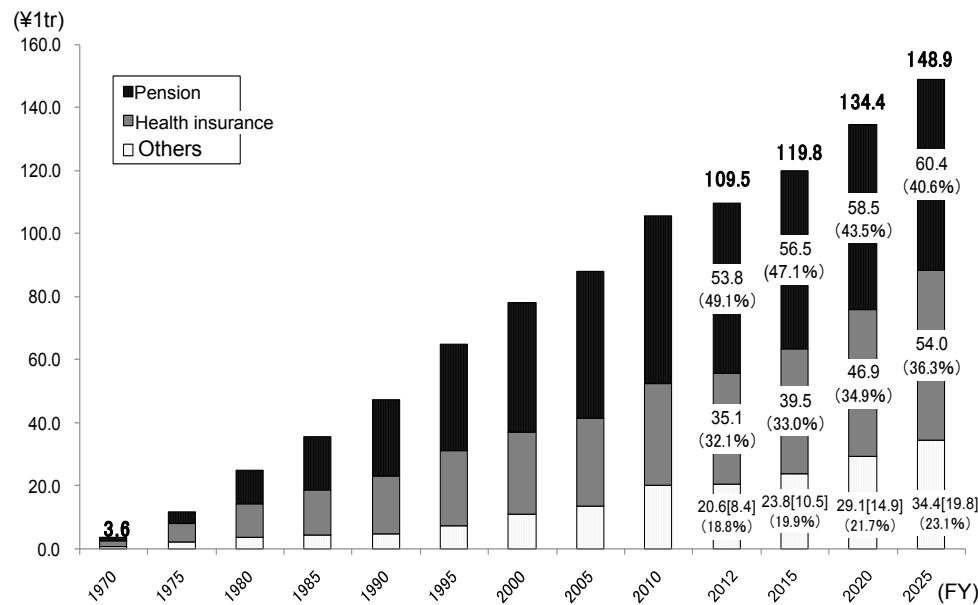
II. Perspectives on Social Security System Reform (1)

- Japan faces an unparalleled birthrate decline, coupled with a population that is aging at a much faster rate than in any other country.
- The working-age population, which supports the social security system, is projected to shrink by more than 30 million by 2050.
- On the other hand, social security benefit costs continue to increase year by year as the population ages. The sustainability of the social security system is in jeopardy.

Population Projection



Social Security Benefit (actual and outlook)

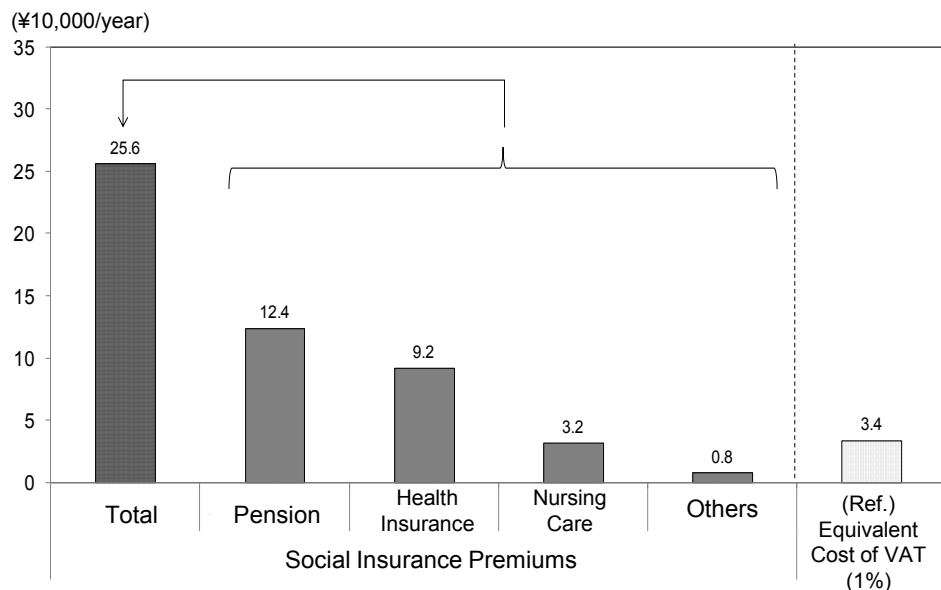


Source: Ministry of Health, Labor and Welfare.
 Note: Figures in () represent the ratio of the total cost.
 Figures in [] are the costs of nursing care

II. Perspectives on Social Security System Reform (2)

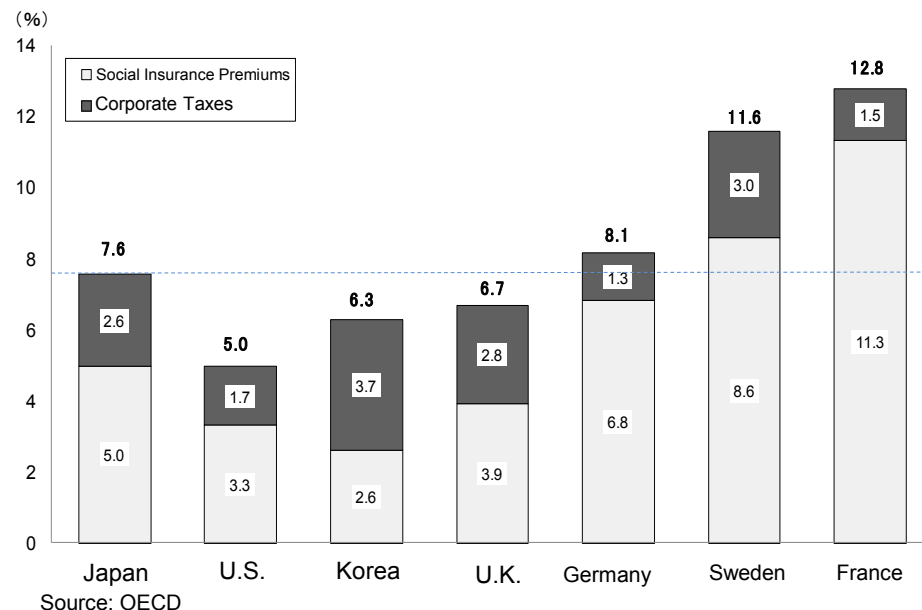
- By FY2025, annual social insurance premiums will increase by approximately 250,000 yen per working household, while employers' total annual social insurance costs are projected to rise by around 12 trillion yen.
- Public burdens on Japanese enterprises (total of corporate taxes + social insurance premiums) already surpass those in the USA and Korea, key business competitors.
- Households and businesses have no leeway to accept further rises in such costs. If the situation is not addressed, Japan will face a downward spiral of (a) reduced consumption, (b) rising production costs, (c) declining competitive advantage as a business location, and (d) loss of economic power through impeded job creation, etc.
- Thus the comprehensive review of social insurance premiums and taxes is urgently needed. Social security system reform should be based on examination of (a) greater efficiency and prioritization of social security benefits, and (b) clear definition of the respective roles of self-help, mutual aid, and public assistance.

Changes in Annual Social Insurance Premiums per Working Household (FY2011 ⇒ FY2025)



Source: Ministry of Internal Affairs and Communications / Ministry of Health, Labor and Welfare
 Note: Calculated by Keidanren

Public Burdens on Enterprises in 2009 (% of GDP)



Source: OECD

III. Specific Models for Reform in the Social Security Programs

1. Medical Care

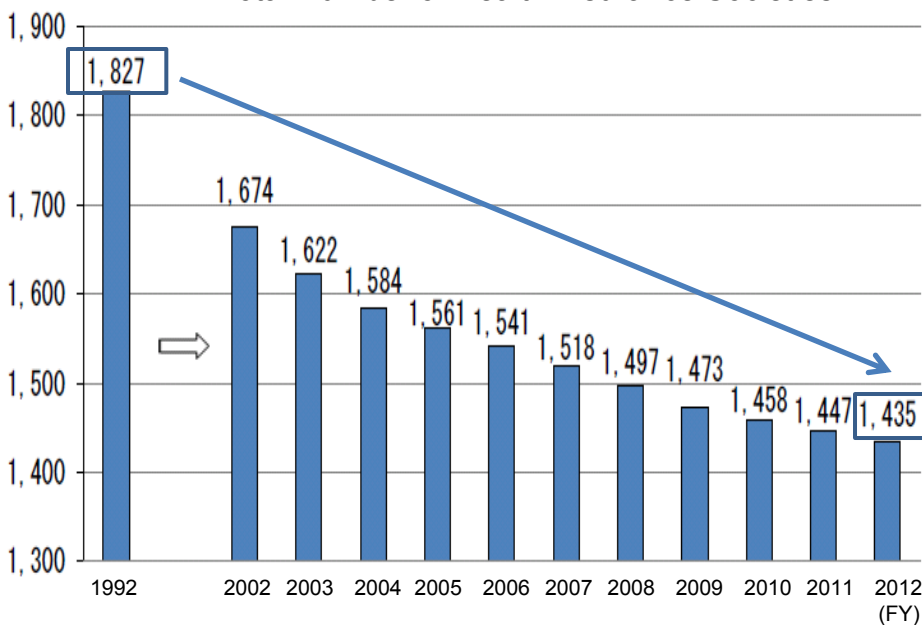
Current Issues

- Relieving pressure on insurers' finances.
- Efficient provision of appropriate medical care in accordance with patient needs.

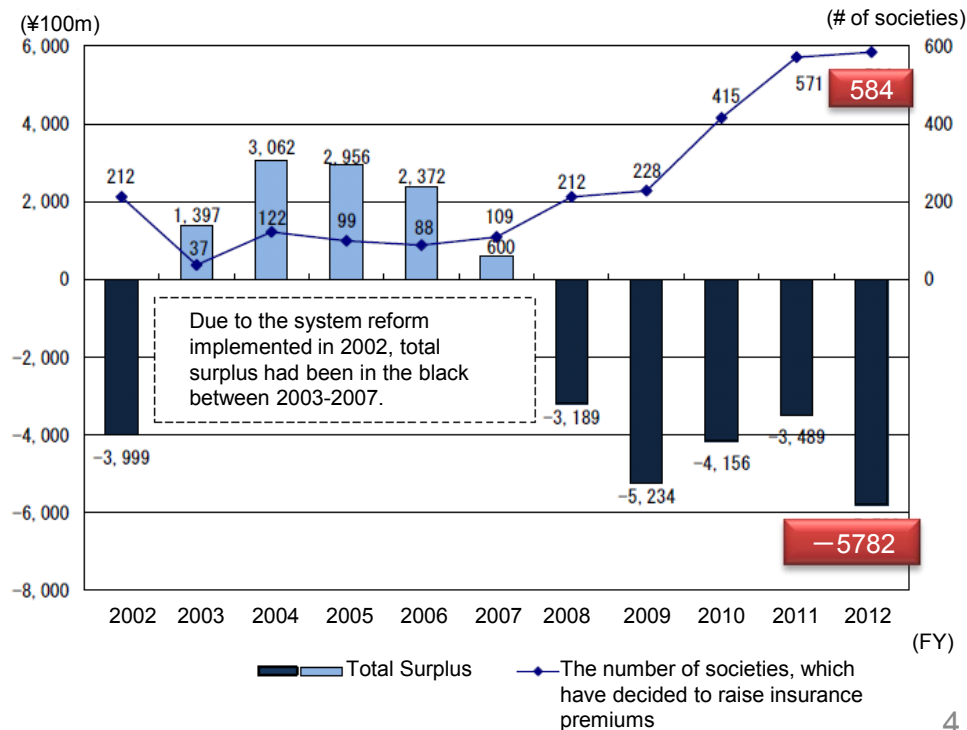
System Reforms Required (see p. 8 for examples of greater efficiency and prioritization of necessary benefits)

- Expand tax-funded proportion of medical benefits for the elderly (including those aged 65-74).
- Reorganize hospitalization functions and achieve a clear division of roles and collaboration among hospitals and clinics.
- Promote use of ICT in medical care.

Total Number of Health Insurance Societies



The Status of Health Insurance Societies



III. Specific Models for Reform in the Social Security Programs

2. Nursing Care

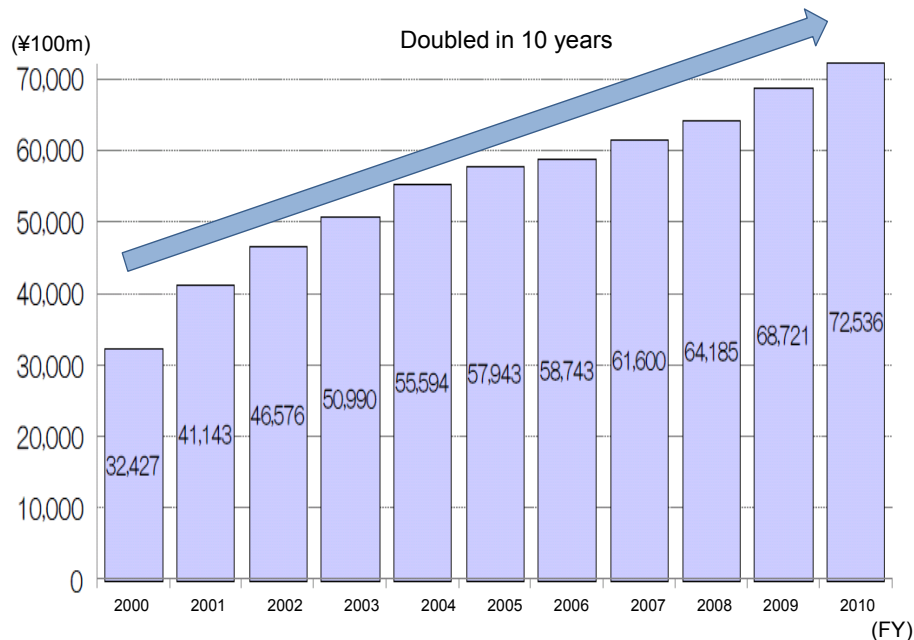
Current Issues

- Ensuring sustainability of nursing care insurance funding.
- Building platforms for efficient nursing care services at the municipal level.

System Reforms Required (see p. 8 for examples of greater efficiency and prioritization of necessary benefits)

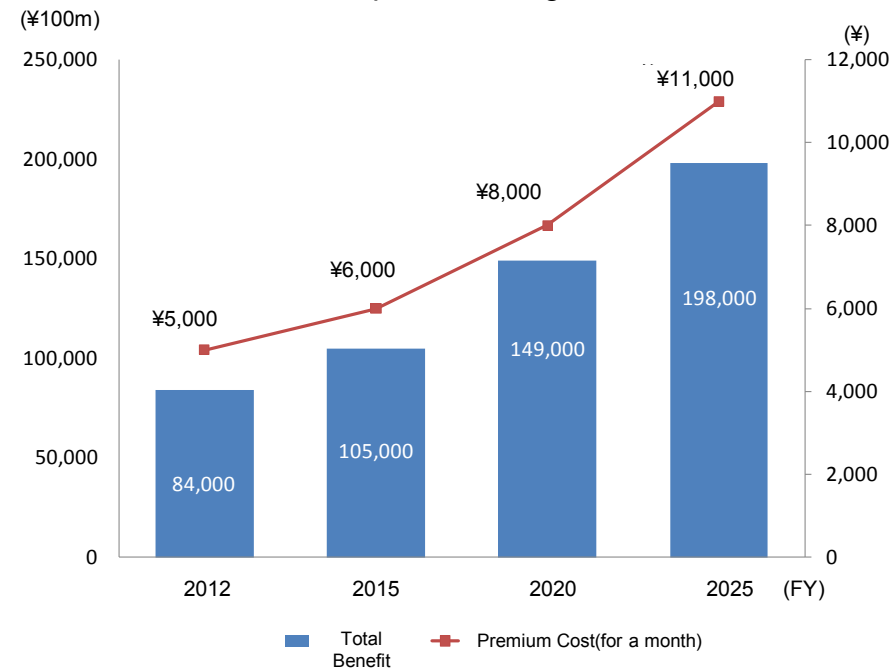
- Expand tax-funded proportion of nursing care benefits.
- Promote the formation of residential areas with high concentrations of elderly and area-wide development of medical and nursing care service centers.

Nursing Care Insurance Premium



Source: Ministry of Health, Labor and Welfare

Total Nursing Care Insurance Benefit, and Its Premium Cost per Those Aged 40-64.



Source: Ministry of Health, Labor and Welfare/
National Institute of Population and Social Security Research

III. Specific Models for Reform in the Social Security Programs

3. Pensions

Current Issues

- Ensuring sustainability of pension funding.
- Responding to changes in the economic environment, industrial structure, etc.

System Reforms Required

- Introduce benefit control measures. *(see p. 8 for examples of greater efficiency and prioritization of necessary benefits)*
- Enhance private pensions to encourage self-help.
- Carefully examine raising age of eligibility.
- Consider shifting basic pension to a tax-funded model as an issue for the future.

Revised Pension Costs and Benefits under 2004 Reforms

	Details	Implementation
Increasing contributions to employees' pension insurance	Contributions to be raised by 0.354% each year until capped at 18.3% from FY2017.	Contribution rate of 16.766% as of October 2012
Raising government-funded proportion of basic pension	Government-funded proportion of basic pension raised to one-half (beginning in FY2004, completed in FY2009).	Consumption tax increases from 2014 will secure permanent source of revenue. Funded in FY2012 and 2013 by special pension bond.
Introducing macroeconomic slide mechanism	Level of benefits to be adjusted as working-age population shrinks (however, a nominal amount is maintained as a minimum level).	Macroeconomic slide mechanism has not been applied, due to deflation and continued overpayment of pension benefits.

III. Specific Models for Reform in the Social Security Programs

4. Measures to Address Falling Birthrate

Current Issues

- Verification of effects that benefits have on people of child-rearing age from perspective of addressing falling birthrate.

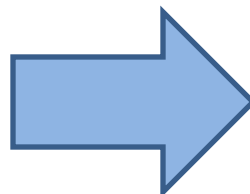
System Reforms Required (see p. 8 for examples of greater efficiency and prioritization of necessary benefits)

- Gradually reduce current employers' costs in respect of support measures for children and child-rearing.
- Enhance childcare services by encouraging market entry by diverse operators.

Former system (until FY2009)

Total benefit amount	1 trillion yen (FY2009) (Note: tax exemptions for children under 16, etc: 1.1 trillion yen)
Eligibility/ amount	Age 0-3 Flat rate 10,000 yen
	Age 3-end of elementary school 1st & 2nd child: 5,000 yen 3rd & subsequent children: 10,000 yen
	Junior high school students: No allowance
	Yes
Income cap	Employees: annual income of 8.6 million yen (household with stay-at-home mother and two children) Note: cap differs according to number of dependents

Changes in Child Allowance



- Total cost of benefits increased approx. 2.3-fold
- Benefit amount increased roughly 1.5-fold
- Eligibility extended to include junior high school students
- Base rate for income cap raised
- Special benefit for households above income cap (total cost approx. 90 billion yen)

Current system (from FY2012)

Total benefit amount	2.3 trillion yen (FY2012)
Eligibility/ amount	Age 0-3 Flat rate 15,000 yen
	Age 3-end of elementary school 1st & 2nd child: 10,000 yen 3rd & subsequent children: 15,000¥
	Junior high school students: 10,000 yen
	Over income cap 5,000 yen
	Yes (from June 2012)
Income cap	Annual income of 9.6 million yen (household with stay-at-home mother and two children) Note: cap differs according to number of dependents

III. Specific Models for Reform in the Social Security Programs

5. Examples of Concrete Measures for Benefit Efficiency and Prioritization

- The latest reforms did not address the question of greater benefit efficiency and prioritization, yet such measures are essential in all the fields mentioned: medical and nursing care, pensions, and halting the falling birthrate.
- Japan cannot afford to regard all elderly people as financially disadvantaged and provide them with generous benefits. The necessary benefits should be provided to people who really require them, in accordance with socio-economic circumstances. Below are examples of measures to achieve greater efficiency and prioritization.

Sample Measures to Improve Efficiency and Prioritization

Sector	No.	Item
Medical care	1	Encourage use of generic drugs
	2	Strengthen guidance/monitoring related to fraudulent insurance claims
	3	Apply legally prescribed co-payment rate to 70-74 year olds (10%→20%)
	4	Review scope of medical insurance benefits (Consider insurance exemption system and the exclusion of some advanced treatments, etc.)
	5	Standardize medical care, promote prospective payment systems (PPS) for treatments including outpatient care
	6	Examine systems for managing overall health insurance benefit costs
Nursing care	7	Exclude assistance with household tasks from home-care benefits for patients with mild disorders
	8	Reorganize preventive benefits and absorb into local governments' own welfare programs for the elderly
	9	Exclude supplementary benefits (handle under tax system)

Sector	No.	Item
Nursing care	10	Set co-payment rate according to income and level of nursing care needed
	11	Introduce user-pays element to preparation of care plans
	12	Limit eligibility for special nursing homes for the elderly (to the seriously ill and those on low incomes)
	13	Consider reducing base amount of maximum benefit by payment category
Pensions	14	Revise macroeconomic slide mechanism (Apply even when consumer prices decline or rise only slightly)
	15	Revise welfare-style benefits for persons on low pensions (including possibility of abolishing the system)
	16	Scale back pensions for high-income earners
Child-rearing	17	Abolish special child allowance benefit, consider revising income cap

IV. Reform That Balances Sustainability and Growth

1. Rethink Revenue Source Structure for Social Security

A comprehensive review of social insurance premiums and taxation is required. With self-help continuing to act as the foundation, roles should be thoroughly divided between mutual aid in the form of social insurance providing for risks that cannot be fully covered by individuals, and tax-funded public assistance offering intergenerational support beyond the bounds of insurance principles.

2. Early Realization of the Social Security and Tax Number System

Introducing this system will ensure that benefits and costs are fairly distributed, enhance transparency, and improve public convenience. It will also enable benefits to be delivered appropriately and efficiently to people who really require them.

3. Formulate a Policy Vision for 2025

A policy vision is required for 2025, when baby boomers will be aged 75 or over. Discussion of how to meet the cost of medical and nursing care benefits, which are expected to rise drastically, needs to begin soon, and should include debate on consumption tax rates.

4. Develop Growth Strategy and Matching Models for Reform

In seeking to boost prosperity through growth, it is crucial to avoid excessive redistribution of resources that does not help to vitalize the economy, since such measures place greater financial burdens on the working-age population and on companies.

V. Conclusion

- **To preserve the vigor of Japan's economy and society and avoid passing on social security costs to future generations, we need to accept harsh reforms, including scaling back benefits.**
- **Keidanren expects politicians to exercise leadership that goes beyond factional differences, with an eye to steadily achieving reform.**
- **The business community will make every effort to gain understanding and support for reform at all levels of society.**