



Japan Update Amendments to the Defined Contribution Pension Act

August 28, 2020

Outline of the amendment

A new law to partially amend the National Pension Act to strengthen the pension system was enacted on May 29, 2020 and promulgated on June 5. The aim is to improve the economic foundation of the system and secure post-retirement income in an environment where employees stay in employment longer and the population is aging.

The main changes concerning Defined Contribution (DC) plans are the following:

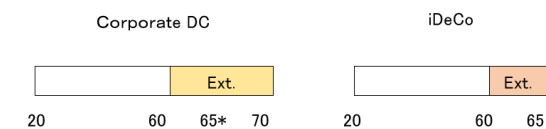
- Extend participation eligibility for corporate DC and personal DC (iDeCo)
- Relaxing iDeCo participation criteria for corporate DC participants and raise contribution limits
- Extend start age of receiving pension
- Relax lump-sum withdrawal limitations (mainly aimed at foreign citizens)

Extended participation eligibility

Starting from May 2022, participation eligibility in corporate DC plans will be extended from the current age 65 to age 70, and the limitation of joining after age 60 will be abolished (currently only employees who joined before age 60 could participate in corporate DC plans). With this change, it will

be possible for employees who are hired to a company or are transferred to another office / group company between the age of 60 and 70 to enroll in a corporate DC plan.

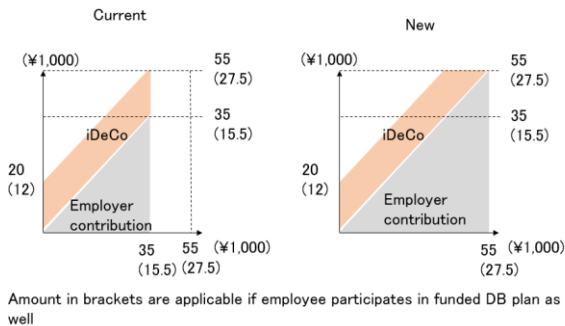
Additionally, from May 2022, participation eligibility in iDeCo will be raised from the current age 60 to age 65.



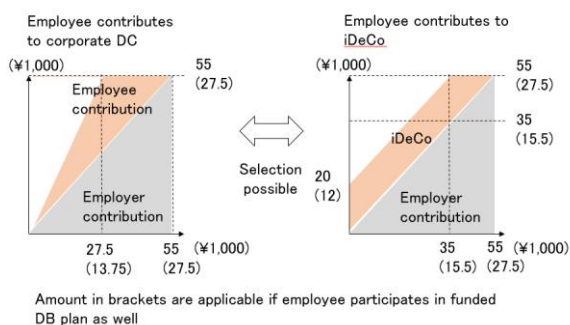
*Currently possible based on DC rules

Relaxing iDeCo participation criteria for corporate DC participants and raise contribution limits

From October 2022, iDeCo participation criteria for employees who also participate in corporate DC plan will be relaxed. Currently, employer contributions to corporate DC need to be reduced, but after the amendment, this will not be the case and employees can join iDeCo with a monthly contribution not exceeding ¥20,000 without impacting employer contribution to corporate DC.



In addition, if the corporate DC offers voluntary employee contribution option, employees can decide if they want to contribute to the corporate DC or to iDeCo. Although employee contributions cannot exceed employer contributions paid to the corporate DC, with iDeCo becoming available, employees will have more options particularly when employer contributions are comparatively low. Further, if we consider investment options, products not offered in the corporate DC may be available to employees under iDeCo, increasing the number of their investment choices.



Extend start age of receiving pension

From April 2022, the latest age when a participant must start receiving benefit from a corporate DC or iDeCo will be extended from the current age 70 to age 75.

Additionally, from May of the same year, corporate DC participants between the age 60

and 75 may start receiving their benefits after 5 years of participation.

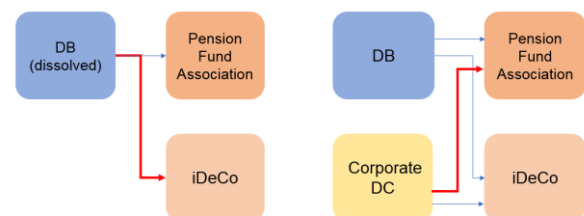
Participation period (yrs.)	Start period
10<	60~75
Between 8 and 10	61~75
Between 6 and 8	62~75
Between 4 and 6	63~75
Between 2 and 4	64~75
Between 1 month and 2yrs	65~75
0 months	5 years part.~75

Relax lump-sum withdrawal limitations

From May 2022, DC participants of foreign citizenship who return to their home country may receive their assets as a lump-sum before the age of 60 (if participation period is 5 years or less or balance is ¥250,000 or less).

Other

Starting from May 2022, asset transfer from dissolved DB plans to iDeCo; and from corporate DC to Pension Fund Association (Kigyō Nenkin Rengokai) will become available.



Red arrows represent new option after the amendment

Impact of DC sponsors

With the extension of participation eligibility age (from the current 65 to 70) and the

abolishment of enrolment restriction after age 60, more flexible benefits can be offered to elderly employees. Further, with the extension of participation eligibility, retention of highly-valued elderly employees may become easier.

The relaxation of iDeCo participation requirements for corporate DC participants will provide employees with more choices. It is important to note that if an employee participates both in corporate DC and iDeCo, they may need to adjust their iDeCo contributions so that the total of the employer contributions to corporate DC and employee contributions do not exceed the statutory upper limit of ¥55,000 per month. Also, employees need to pay administration fees if they participate in iDeCo.

Along with this revision, financial institutions managing corporate DC plans (vendors) are obliged to inform DC participants of the amount they can theoretically contribute to iDeCo, e.g. through their website. As an employer, it is necessary to cooperate with vendors in this process, to notify and educate employees and to update relevant administrative processes.

With the relaxation of lump-sum withdrawal limitations, employees with foreign citizenship who are temporarily assigned to roles in Japan from overseas will be able to receive their DC assets when they return to their home country. Therefore, even if such employees are currently exempted from DC participation, companies may consider enrolling them going forward.

Aon's services

In connection with the above revisions, AON can provide the following support:

- Review retirement benefit design, including DC
- Support with the introduction of DC and voluntary employee contribution system, advisory with addition or removal of investment products
- Evaluation of DC plan vendors
- Facilitate investment education to raise employee interest in DC and promote its use (e.g. voluntary employee contribution or investment decisions)
- Seminars and workshops aimed at improving financial well-being (financial health) such as household budgeting, asset formation, risk and debt management, etc.

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