



## European Business Community in Japan

### “Expanding the Scope of the Japanese Pension Refund System to Support Business Development in Japan”

September 2004

#### Summary of EBC request:

Mandatory contributions to the Japanese public pension system should be remitted in full to departing expatriates and their employers.

#### Background:

All workers in Japan are required by law to pay into the Japanese public pension system. The type of system to which you belong depends on the type of job that you hold. Most salaried workers pay into the Employees' Pension Insurance System (*kousei nenkin*) while government officials and self-employed individuals pay into the National Pension System (*kokumin nenkin*). Contributions to the Employees' Pension Insurance System are shared equally between employee and employer. In principle, workers collect benefits from the age of 65 so long as they have paid into the system for at least 25 years.

Foreign workers living in Japan who are not subject to a bilateral social security agreement must also contribute to the Japanese pension system along with their employers.

For foreigners leaving Japan that have worked in Japan for longer than 6 months and less than 25 years, it is possible to receive a partial refund of pension contributions, capped at 3 years and 1,488,000 yen (after tax). Employers are not entitled to any refunds.

The EBC feels that these restrictions should be abolished. In other words, departing expatriates and their employers should receive a full refund of all mandatory pension contributions paid to date. This refund should not be subject to the current three-year limit, nor the 1,488,000 yen monetary cap.

The rationale for this request is as follows:

The Japanese pension refund system for departing foreign workers (*tanki zairyu gaikokujin ni taisuru dattai ichijikin*) was originally established to address complaints from foreign workers that the Japanese pension system was unfair to foreigners who did not intend to stay in Japan for longer than 25 years. In other words, foreigners were being forced to pay into the Japanese pension system with little hope of collecting any benefits. A study group on pension reform recommended the establishment of a partial refund system, which was adopted into the Pension Law in 1994.



The official justification given by the Japanese Government for capping refunds at 3 years/1,488,000 yen is that the system was designed for “short-term” foreigners, in other words the 90 percent of foreign workers who leave within three years.

The EBC feels that this line of reasoning is not justifiable on either moral or economic grounds.

In effect, the pension contributions made by foreigners who work over three years and less than 25 years in Japan is simply confiscated by the Japanese Government. This is clearly discriminatory; foreigners in this situation face an effective tax rate that is considerably higher than their Japanese colleagues.

Workers are not the only ones affected, however. Companies in Japan, regardless of their national origin, are not able to receive any refunds on contributions that they make to the pension system on behalf of their foreign employees.

The three-year/1,488,000 yen limit is also having an impact on the ability of companies to manage their human resources effectively. Companies have reported cases in which they have been unable to convince foreign employees with specialist technical or managerial skills to renew their contracts beyond three years due to the fact that employees would be unable to receive a refund on contributions made to the pension system after the first three years.

This ultimately has an adverse impact on business development and investment.

The EBC notes the fact that the Japanese Government has been working hard to sign bilateral social security treaties with its main trading partners to eliminate the double payment of social security costs. The EBC supports this policy goal. But the signing of social security agreements will not necessarily eliminate the problems associated with retaining skilled foreign workers for longer than three years as many of these workers do not pay into a mandatory pension system in their home country.