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New Pension Replacement Ratio, which Takes Women's Employment History into Account

The replacement ratio is 44% at present - expansion of system application is key to curbing future declines

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Summary

- The government publishes its future outlook using the ratio of pension receipts to the average income of working men as the "model pension replacement ratio," assuming that households are single-income, and that women are all fulltime housewives.
- In this report, "a new model pension replacement ratio" is estimated in order to find the ratio of public pension which covers the income of the working generation as seen in society as a whole (not limited to households with full-time housewives). Specifically, the average income expressed in the denominator and the annuity amount expressed in the numerator were estimated using the average income, employment rate, and welfare pension enrollment rate of each generation at various points in time, assuming a more general-purpose average household with a husband and wife in which income and form of employment are not specifically set.
- The estimate shows that the current pension amount for new pensioners is almost the same when the old pension model and the new pension model are compared, but the replacement rate of the old model is 61.7%, while that of the new model is only 44.0%. The actual income of the husband-and-wife household is about 30% higher than the one covered by the welfare pension system, and this difference is included in the income as expressed in the denominator of the new model, while it is not reflected in the pension amount as expressed in the numerator, resulting in a difference in the replacement ratio.
- The new replacement ratio is expected to decline by 5.7%pt in the standard case between 2019 and 2065, of which about 40%, or 2.2%pt, will be covered by the expansion of the application of the welfare pension to short-term workers. The key to raising the new replacement ratio is to incorporate more income from employment into the welfare pension system, and expanding its application is an effective means.

Attention

This report is a summary translation. The official document is only in Japanese.