



FALIA Invitational Seminar in Japan
“Product Development Strategy Course”

**Product Strategy for the
Corporate Market
– Group Pension Insurance –**

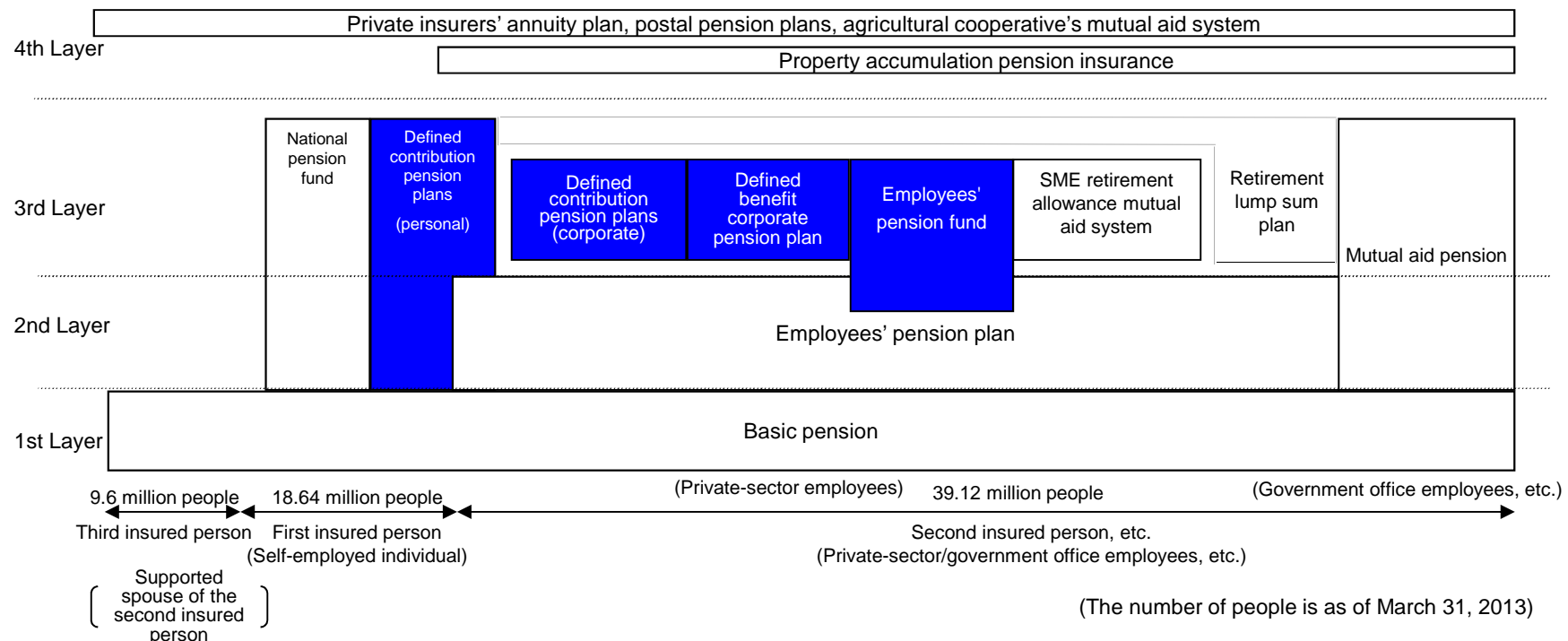
**May 26th, 2014
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I. The Pension System in Japan

- I-1. Overview of the Pension System in Japan
- I-2. Shift to the Aging Society and Review of the Public Pension System in Japan
- I-3. The Retirement Benefit and Pension Systems at Corporations
- I-4. Reform of the Corporate Pension System

I-1. Overview of the Pension System in Japan

- The Japanese pension scheme (the retirement benefit scheme) is structured in four layers
 - 1st layer: The national pension in which every Japanese national is obliged to enroll
 - 2nd layer: Employees'/mutual aid pension for employees of private-sector companies and government offices
 - 3rd layer: Corporate pension including defined benefit and defined contribution pension plans
 - 4th layer: The portion to be procured by self-reliant efforts; e.g. individual annuities, etc
- } Public pension plan



(Note) Defined contribution pension schemes (personal) also cover second insured persons who do not hold any other corporate pension scheme.

I-2. Shift to the Aging Society and Review of the Public Pension System in Japan

- Changes in and outlook for the percentage of the population that is over 65 years old following the advance of falling birthrates and the aging of society

	1960	1970	1980	1990	1995
Population of people age 65 or older ÷ Population of people age 20 through 64	10.6% (1 person for every 9.5 people)	11.7% (1 person for every 8.5 people)	15.1% (1 person for every 6.6 people)	19.6% (1 person for every 5.1 people)	23.2% (1 person for every 4.3 people)
	2000	2005	2010	2035	2060
Population of people age 65 or older ÷ Population of people age 20 through 64	27.9% (1 person for every 3.6 people)	33.1% (1 person for every 3.0 people)	39.0% (1 person for every 2.6 people)	63.3% (1 person for every 1.6 people)	84.4% (1 person for every 1.2 people)

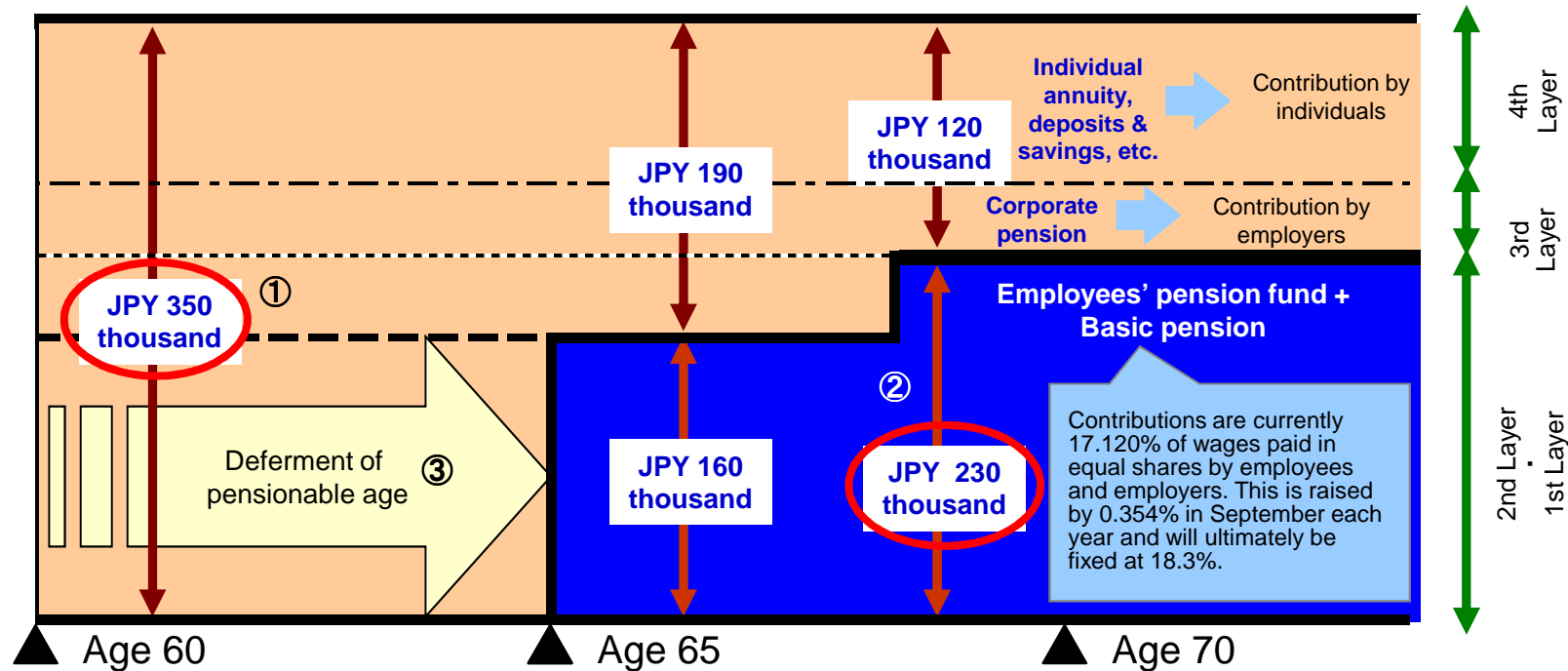
Population Census and Population Estimates, Statistics Bureau, Ministry of Internal Affairs and Communications
Population Projection for Japan (January 2012 Projection), National Institute of Population and Social Security Research

→ Review of the Public Pension System

- Deferment of pensionable age (over age 60 → over age 65)
- Escalated increase of premiums (e.g. 13.58% of annual income → 18.3% of annual income)

- Increasing importance of corporate pension plans
- Increasing consciousness of self-help

[Reference] Image of the Post-retirement Cost of Living (Example of an Employee at a Private-sector Company)



This color denotes populations not covered by a public pension plan that require a corporate pension plan and self-help allocations.

① Results of the Research on Living Security in 2013 by JILI

- Enough for one's cost of living after retirement
JPY 354 thousand / month
- Minimum cost of living after retirement
JPY 220 thousand / month

② **Employees' pension fund**
JPY 99 thousand
Basic pension (husband)
JPY 64 thousand
Basic pension (wife)
JPY 64 thousand
Total **JPY 227 thousand**

New settlement benefit level for households where the husband works for 40 years with an average income (average standard compensation of JPY 360 thousand) and the wife is a full time housewife over the entire period
 Source: HP of Ministry of Health, Labour and Welfare

③ The qualifying age is to be deferred successively. Males of age 53 or under, and females of age 48 or under will be **pensionable at the age of 65**.

I-3. The Retirement Benefit and Pension Systems at Corporations

Perspectives on the Construction of the Retirement Benefit and Pension System

From personnel affairs' points of view

- Benefits reflecting individual's business performance
- Deal with personnel liquidity
- Train self-reliant personnel



- Benefit scheme reflecting the performance accumulated in every year
- Non-discriminative plan for people recruited mid-career

From financial points of view

- Risk management for the projected benefit obligation (PBO)
- Reduction of the asset investment risk
- Stability of cash flow



- Plan that aims to reduce projected benefit obligations and for the stability of pension costs
- Retirement benefit and pension system that is sustainable on into the future



From employees' points of view

- Relieve anxiety over life after retirement
- Handle public pension reform
- Realization of diversified life styles

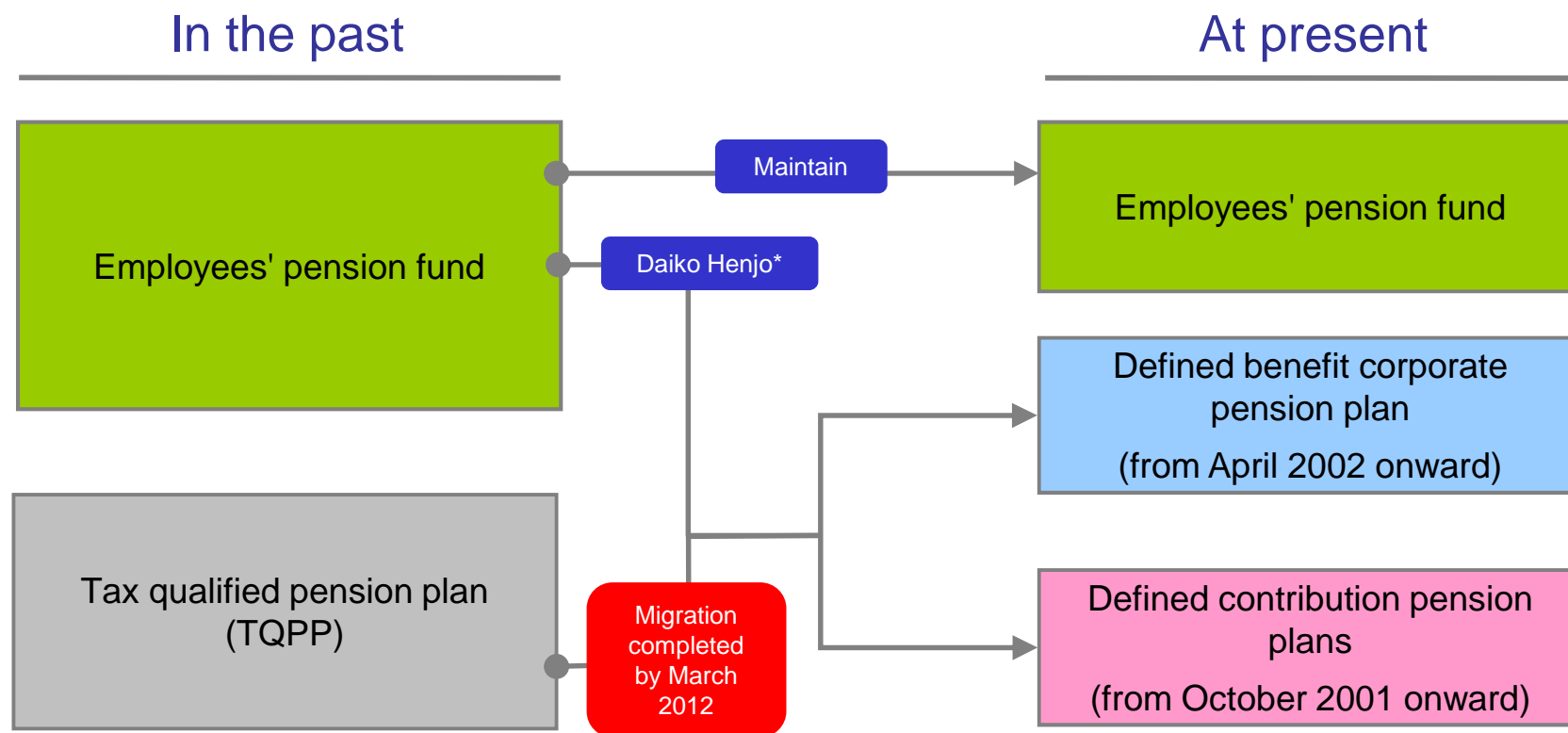


- Complementary scheme to the public pension plan
 - Dealing with the deferment of the qualifying age
 - Dealing with the reduction of pension benefits
- Plan to support and to promote individual self-help

Necessity of constructing a retirement benefit and pension system based on these perspectives

I-4. Reform of the Corporate Pension System

- The Japanese corporate pension systems experienced a drastic legal revision from 2001-2002.
- Traditionally, the employees' pension fund was the major corporate pension scheme in Japan; however, two new schemes of defined benefit and defined contribution pension plans were introduced and increasingly more companies have migrated over to these new schemes.
- In particular, as the TQPP was abolished from the end of March 2012, the migration to these other schemes has been completed.



*Daiko Henjo: The employees' pension fund is a scheme that makes payments in place of the national government for some employees' pension plans, with employers' own payments added on top of this. With Daiko Henjo, the payment obligation for the substitute portion and the assets for this are relinquished to the national government, while at the same time the portion paid by the company itself can be migrated to a defined benefit corporate pension plan or similar scheme.

I-4. Reform of the Corporate Pension System: Background to Reform

① Financial point of view ... Expanding options suited to changes in the environment

- Backed by the increased funding shortages resulting from the deterioration of the investment environment and the problems with posting the projected benefit obligations (PBO) due to the changes to accounting standards, demands to enhance the options for traditional defined benefit type pension plans have grown more vociferous.
- ➔ Realization of the employees' pension funds' Daiko Henjo
- ➔ Introduction of the defined contribution pension plan

② Employee's point of view ... Establishment of protection for pension rights under uniform rules

- Enactment of the Defined Benefit Corporate Pension Act with the goal of contributing to improving the stability of people's lives and their welfare by strengthening pension rights for corporate pensions
- ➔ Abolition of TQPP (end of March 2012)
- ➔ Introduction of the defined corporate pension plan, a plan which strengthens protection of pension rights
(The qualifications to receive a pension equivalent to the employees' pension fund/lump-sum payment, financial verification, rules of restoring financial soundness, and fiduciary responsibilities are regulated by law)

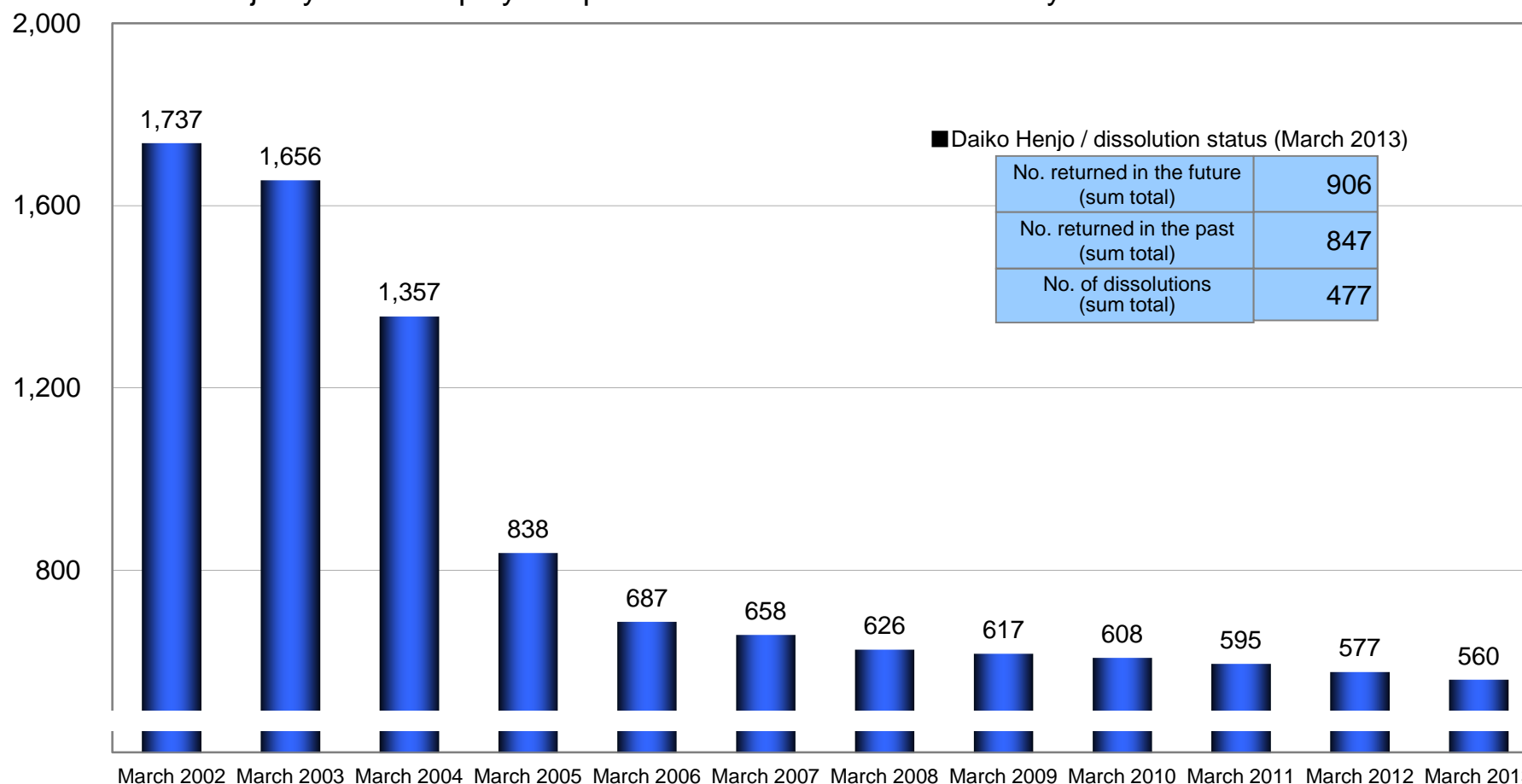
I-4. Reform of the Corporate Pension System: Outline of Each System

	Defined benefit corporate pension plan	Defined contribution pension plan (corporate)	Employees' pension fund
Payment layout	Defined benefit type	Defined contribution type	Defined benefit type
Scheme created	2002	2001	1965
Governing law	Defined Benefit Corporate Pension Act	Defined Contribution Pension Act	Employees' Pension Insurance Act
Features	This scheme is an extension of the conventional pension system found in Japan	Scheme that had not previously existed in Japan in which employees invest premiums contributed by their employers	Substitute some of the employees' pension insurance (national pension plan)
No. of schemes*	14,676	4,221	560
Balance of assets*	JPY 500,259 hundred million (market value)	JPY 67,610 hundred million (market value)	JPY 288,892 hundred million (market value)
No. of participants*	7.96 million people	4.43 million people	4.26 million people

*As of the end 3/2013

I-4. Reform of the Corporate Pension System: Changes in Employees' Pension Funds

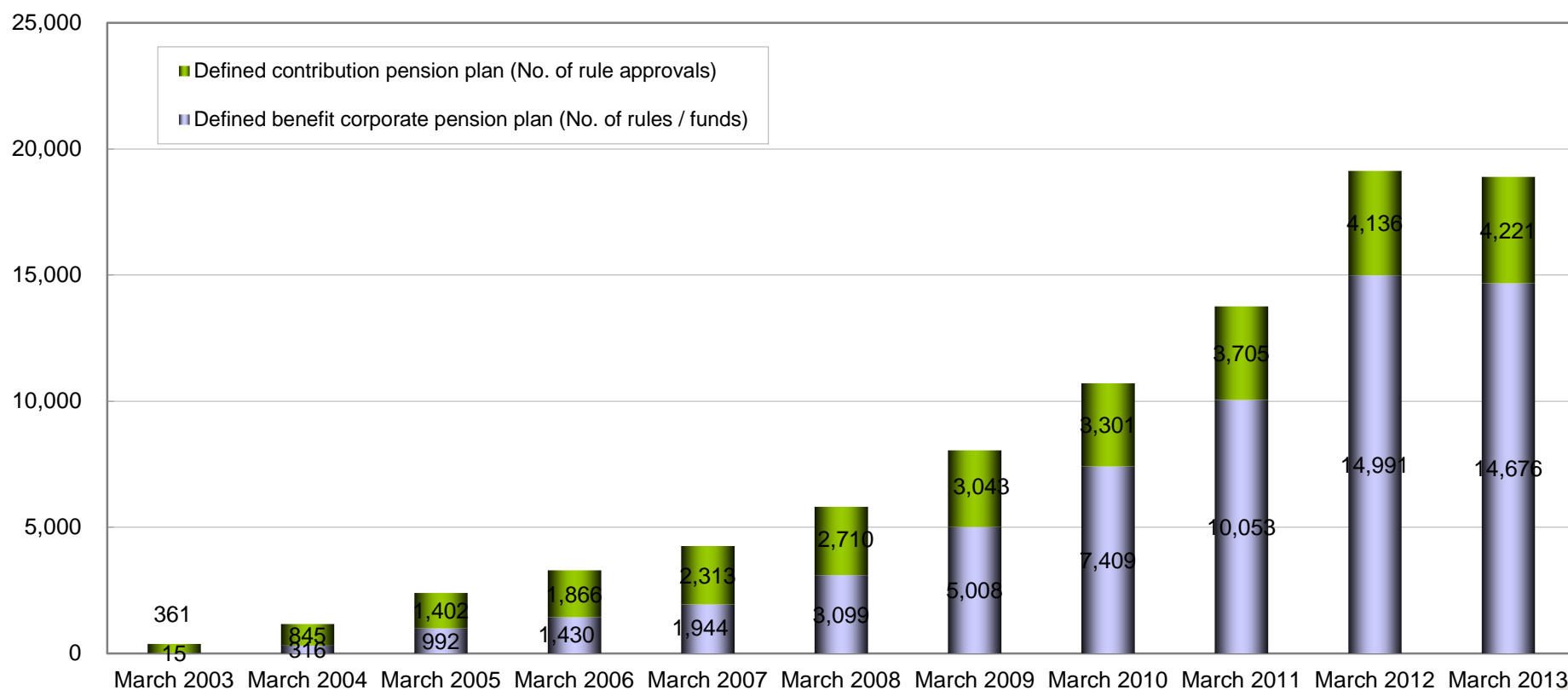
- Daiko Henjo was performed on most of the employees' pension funds between September 2003 and March 2005, and the migration was made to a new pension scheme (defined benefit corporate pension plans and defined contribution pension plans).
- In April 2014 the law on the employees' pension fund scheme was revised, with the expectation being that the majority of the employees' pension funds will be dissolved by the end of March 2019.



I-4. Reform of the Corporate Pension System: Changes in Defined Benefit Corporate Pension and Defined Contribution Pension Plans

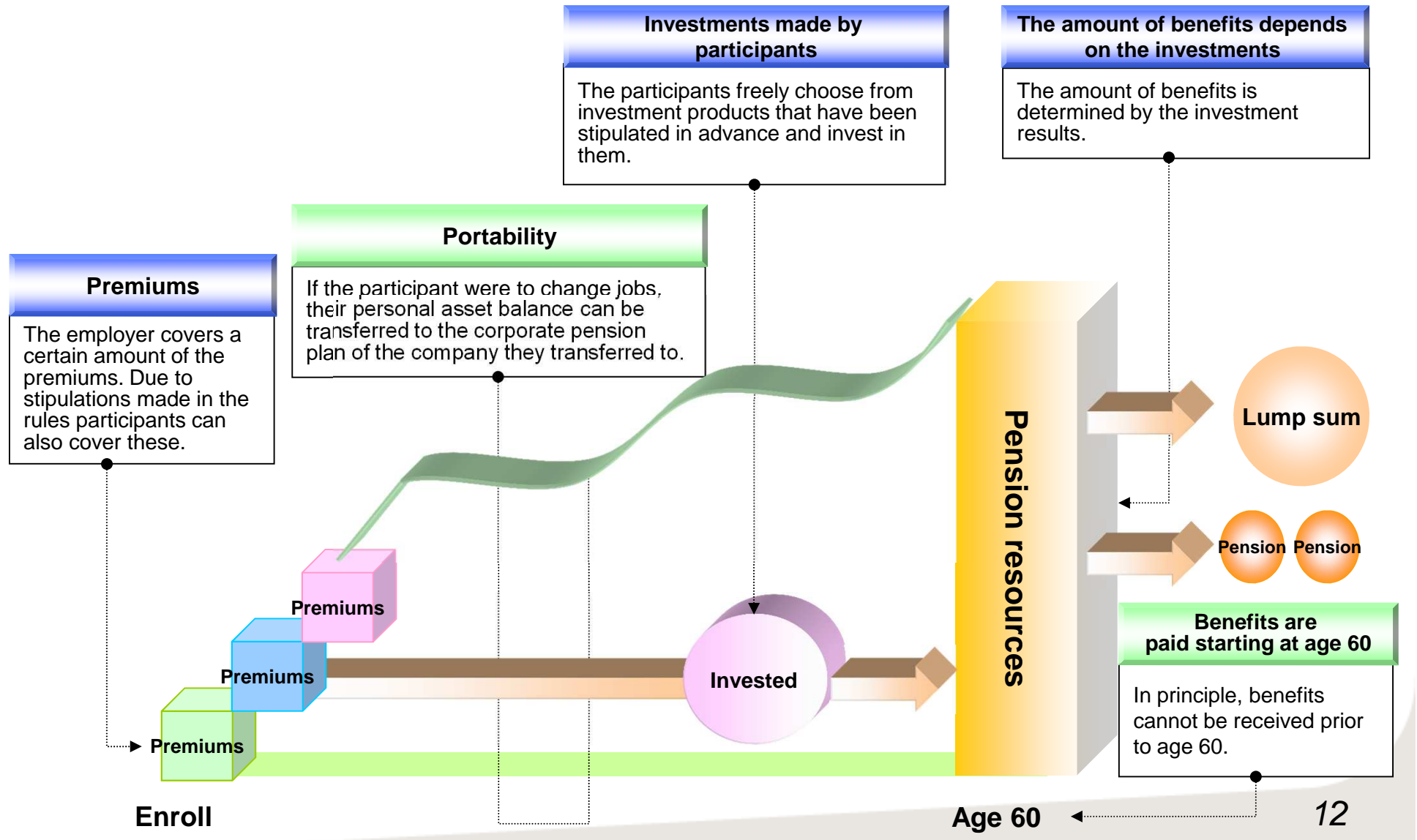
- The number of defined benefit corporate pension plans and defined contribution pension plans introduced has been expanding favorably primarily through the migration from employees' pension funds and TQPPs.
- In particular the number of defined benefit corporate pension plans introduced has increased substantially due to the migration from TQPPs in recent years.

[Number of introduced defined benefit corporate pension and defined contribution pension plans]



I-4. Reform of the Corporate Pension System: Outline of the Defined Contribution Pension Plan System

- The contributed premiums are clearly separated for each individual, with the amount of the pension benefits determined based on the total value of the premiums plus their investment returns



I-4. Reform of the Corporate Pension System: Popularization of the Defined Contribution Pension Plan System

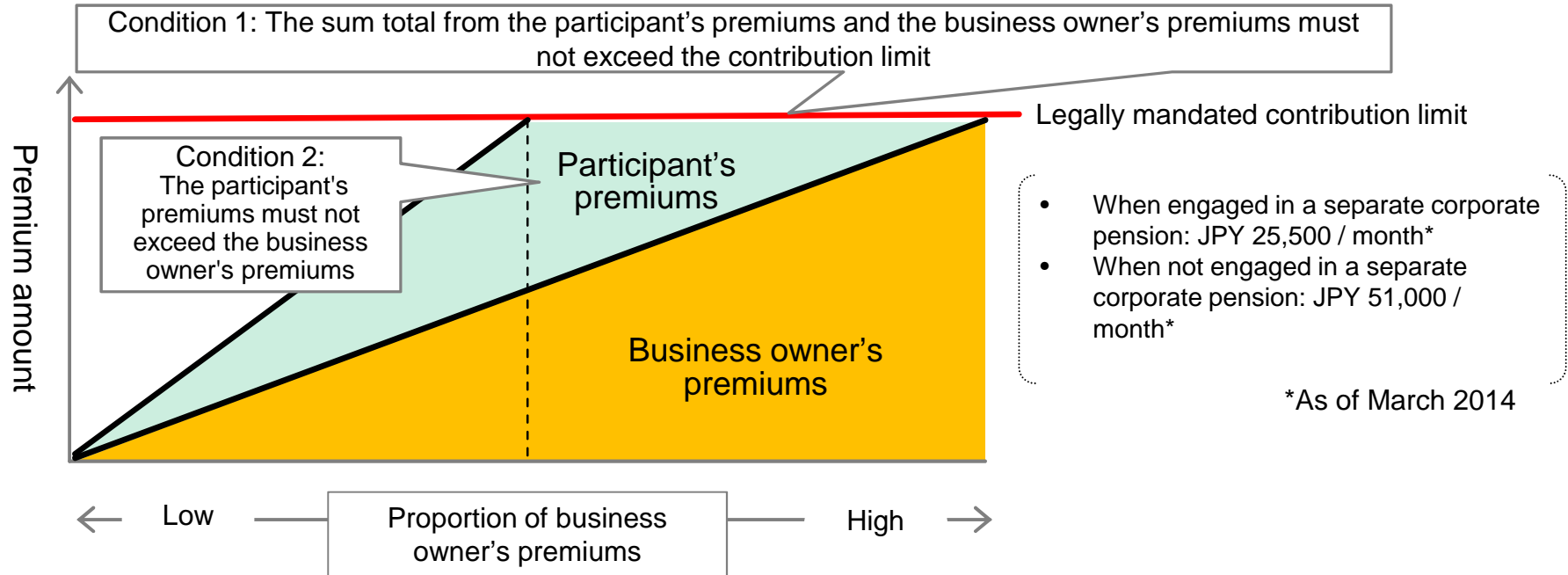
■ There are plans to further expand the contribution limit

	October 2001 -	October 2004 -	January 2010 -	Expansion of the contribution limit* (Execution date has not been determined.)
When engaged in a separate corporate pension	JPY 18,000 / month (JPY 216,000 / year)	JPY 23,000 / month (JPY 276,000 / year)	JPY 25,500 / month (JPY 306,000 / year)	<div style="background-color: #1a3d7a; color: white; padding: 10px; border-radius: 15px;"> <p>JPY 27,500 / month (JPY 330,000 / year)</p> <p>JPY 55,000 / month (JPY 660,000 / year)</p> </div>
When not engaged in a separate corporate pension	JPY 36,000 / month (JPY 432,000 / year)	JPY 46,000 / month (JPY 552,000 / year)	JPY 51,000 / month (JPY 612,000 / year)	

*This was incorporated into the fundamental principles of the tax system reform by the governing party in FY2014, and has been approved by the Cabinet

I-4. Reform of the Corporate Pension System: Popularization of the Defined Contribution Pension Plan System (Matching Contributions)

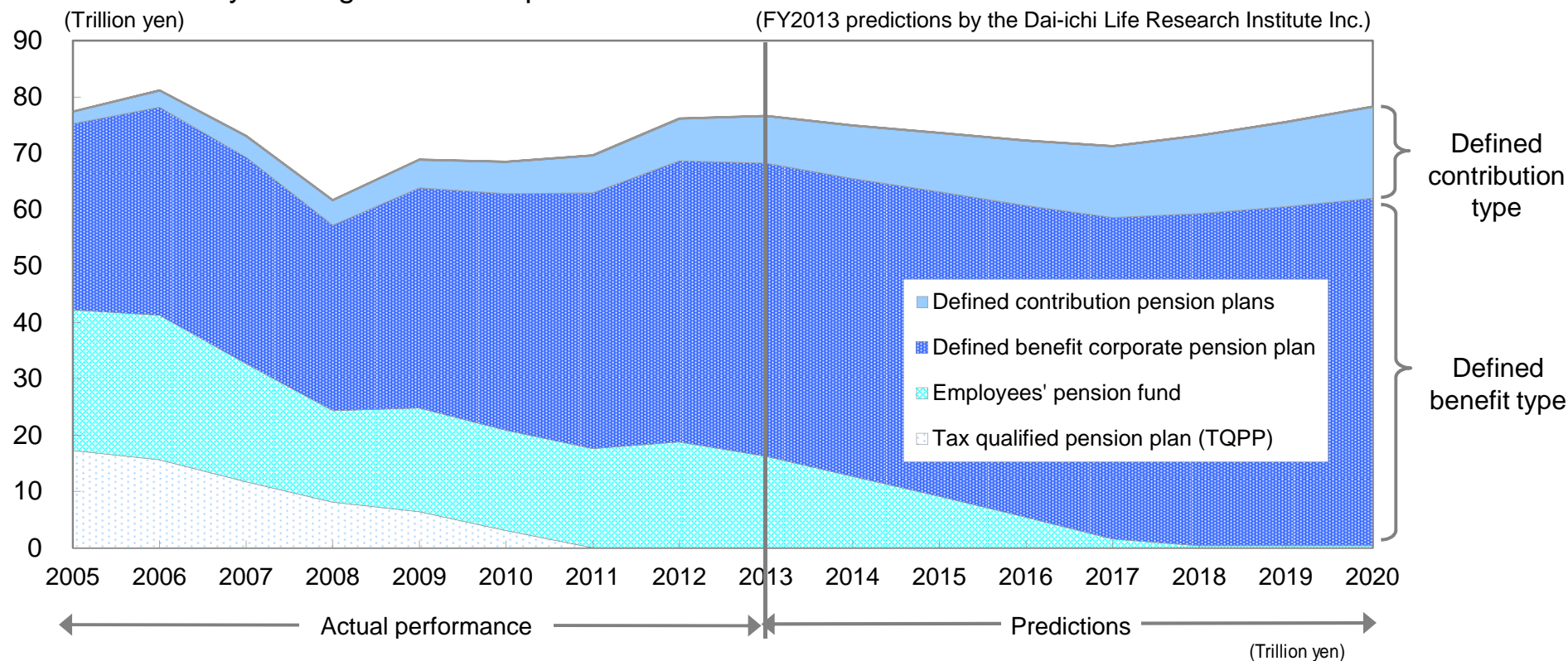
- Matching contributions refer to when employees make additional contributions on top of the premiums paid by their employer (from January 2012 onward)



	Advantages	Disadvantages
Employees	<ul style="list-style-type: none"> • Allows for personal asset formation through the use of tax-exempt schemes (deductions of the full amount of taxable income) 	<ul style="list-style-type: none"> • There are limits on the contribution amount
Employers	<ul style="list-style-type: none"> • Can work to enhance the system without any additional premium burden on the employer 	<ul style="list-style-type: none"> • Generates an administrative workload • Sets in place internal regulations

I-4. Reform of the Corporate Pension System: Future Outlook for Asset Balances

- The asset balance decreased drastically due to the deterioration of the investment environment in FY2007-2008.
- In April 2014 the law on the employees' pension fund scheme was revised, with the expectation being that the majority of the employees' pension funds will be dissolved and their asset balances will decrease by the end of March 2019.
- Conversely, it is predicted that hereafter the asset balance for corporate pension plans will hold steady due mainly to the growth in DC plan assets.



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Defined benefit type	75.2	78.2	69.3	57.3	63.9	62.9	63.0	68.7	68.2	65.5	63.2	60.7	58.6	59.3	60.5	62.0
Defined contribution type	2.2	3.0	3.8	4.4	5.0	5.7	6.7	7.5	8.4	9.4	10.4	11.5	12.7	13.8	15.0	16.3

(Trillion yen)

II. The Corporate Pension Business in Japan

- II-1. Products and Services of the Corporate Pension Business
- II-2. Concrete Flow of the Corporate Pension Business
- II-3. Major Players in the Japanese Corporate Pension Business
- II-4. Major Issues in the Japanese Corporate Pension Business

II-1. Products and Services of the Corporate Pension Business

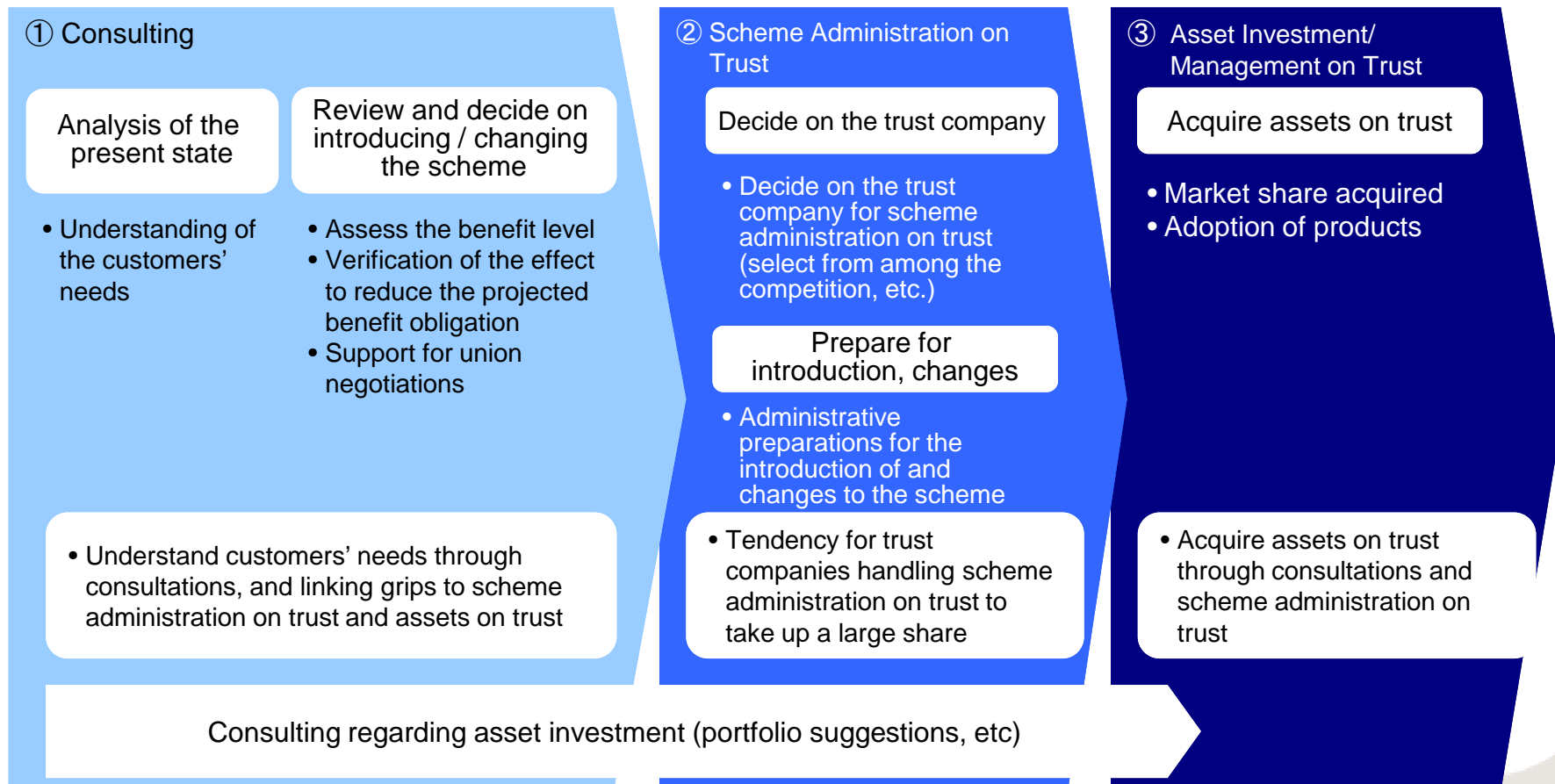
■ There are three major products and services in the corporate pension business as follows:

- ① Consulting service for pension scheme planning
- ② Administration service for the operation and management of the pension scheme
- ③ Investment and management of pension assets

How to link it to scheme administration on trust and asset on trust?	How to make it efficient?	How to expand trust on products with high profitability?
<p>① Consulting service for pension scheme planning</p> <ul style="list-style-type: none">• Consultation on planning and reforming of the retirement benefit scheme and associated test calculations and numeric analysis• Consulting regarding asset investment (portfolio suggestions, etc) <p>Strong need to respond to environmental changes</p>	<p>② Administration service for operation and management of the pension scheme</p> <ul style="list-style-type: none">• Administration of affairs relating to changes in plan participants and payment of benefits to recipients• Administration of matters relating to actuarial calculations and financial accounting <p>Process industry with small profits and quick returns</p>	<p>③ Investment and management of pension assets</p> <ul style="list-style-type: none">• Investment of the pension assets (asset management business)• Management of the pension assets (trustee business) <p>The major source of income in the corporate pension business</p>

II-2. Concrete Flow of the Corporate Pension Business

- In the corporate pension business, securing customers' trust and understanding their needs by providing timely and appropriate consultation services is the most important thing.
- Aim to expand assets on trust, which is the major source of revenue, in line with the flow from ① consulting, through → ② scheme administration on trust and → ③ asset management and management on trust.



II-3. Major Players in the Japanese Corporate Pension Business ①

■ Apart from the three comprehensive services provided by life insurance companies and trust banks of

① Consulting, ② scheme administration, and ③ asset investment/management. Dai-ichi has also been entering the businesses of:

① Consulting companies specializing in consultations and

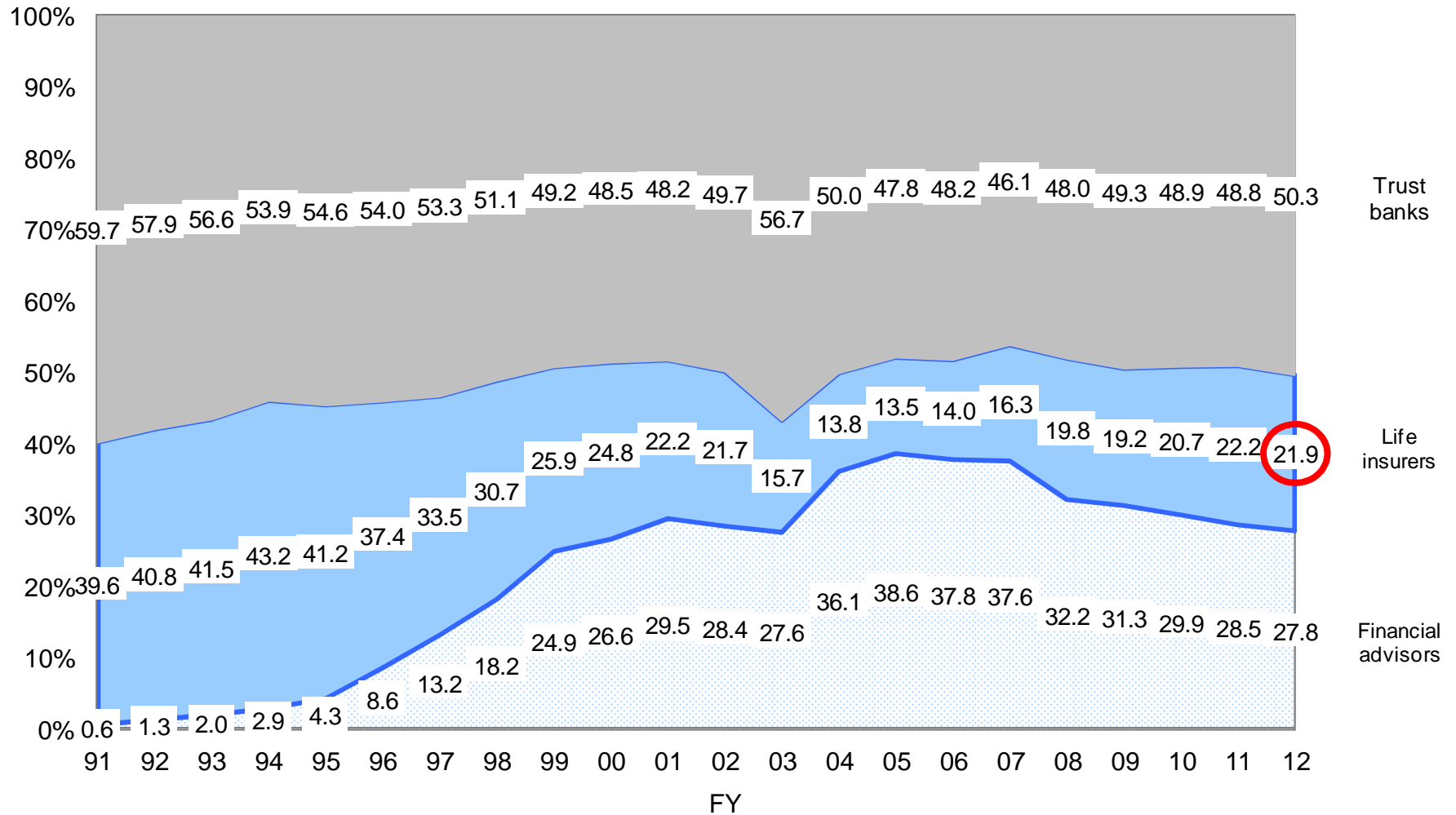
③ Investment advisory companies specializing in asset management

[Status of the trustee business by type of business as of the end of March 2013]

		Total					
		Employees' pension fund		Defined benefit corporate pension plan			
No. of schemes entrusted for administration	Life insurers	127	(22.7%)	8,217	(68.2%)	8,344	(66.1%)
	Trust banks	433	(77.3%)	3,839	(31.8%)	4,272	(33.9%)
	Total	560	-	12,056	-	12,616	-
Balance of assets entrusted for investment	Life insurers	23,732	hundred million yen (13.1%)	125,582	hundred million yen (25.1%)	149,314	hundred million yen (21.9%)
	Trust banks	157,727	hundred million yen (86.9%)	374,676	hundred million yen (74.9%)	532,403	hundred million yen (78.1%)
	Financial advisors among these	41,852	hundred million yen (23.1%)	136,654	hundred million yen (27.3%)	178,506	hundred million yen (26.2%)
	Total	181,459	hundred million yen -	500,259	hundred million yen -	681,718	hundred million yen -

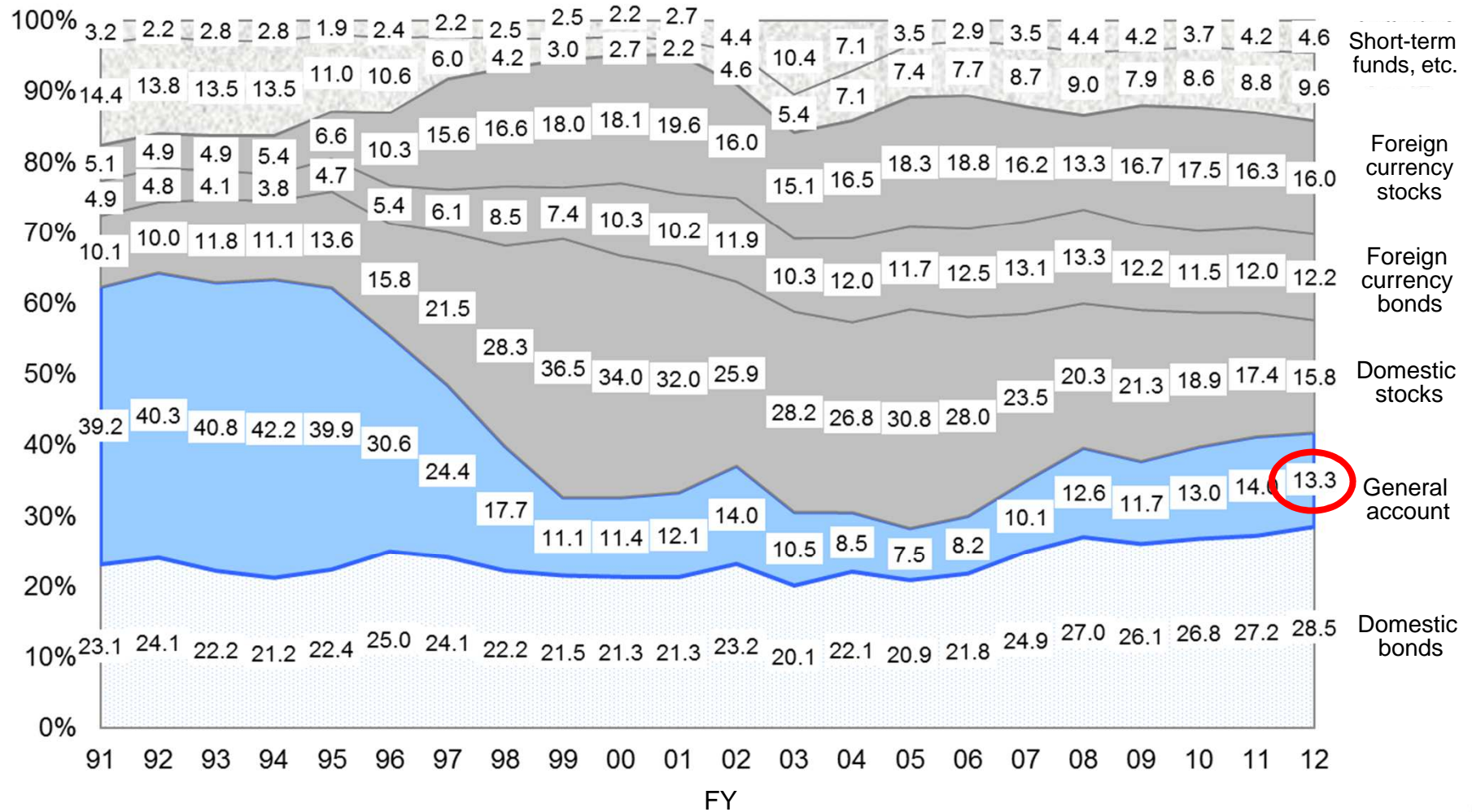
* The number of plans and balances for life insurers includes the portion from ZENKYOREN as well.

[Reference 1] Changes in the Balance Percentages by Contract Configuration for Corporate Pensions



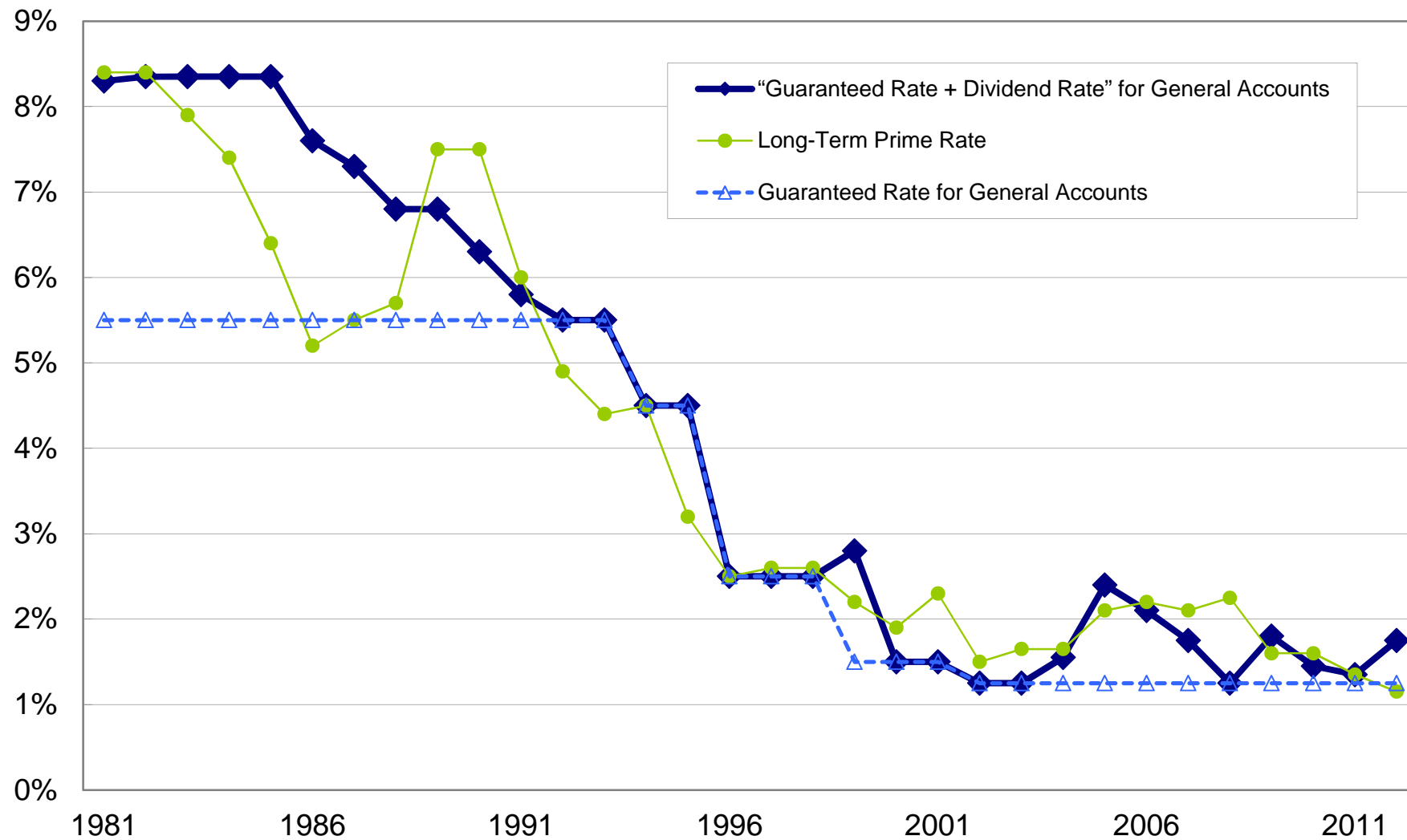
(Source) Fact-Finding Survey on Asset Investment, Pension Fund Association

[Reference 2] Changes in the Asset Composition Percentage for Corporate Pensions



(Source) Fact-Finding Survey on Asset Investment, Pension Fund Association

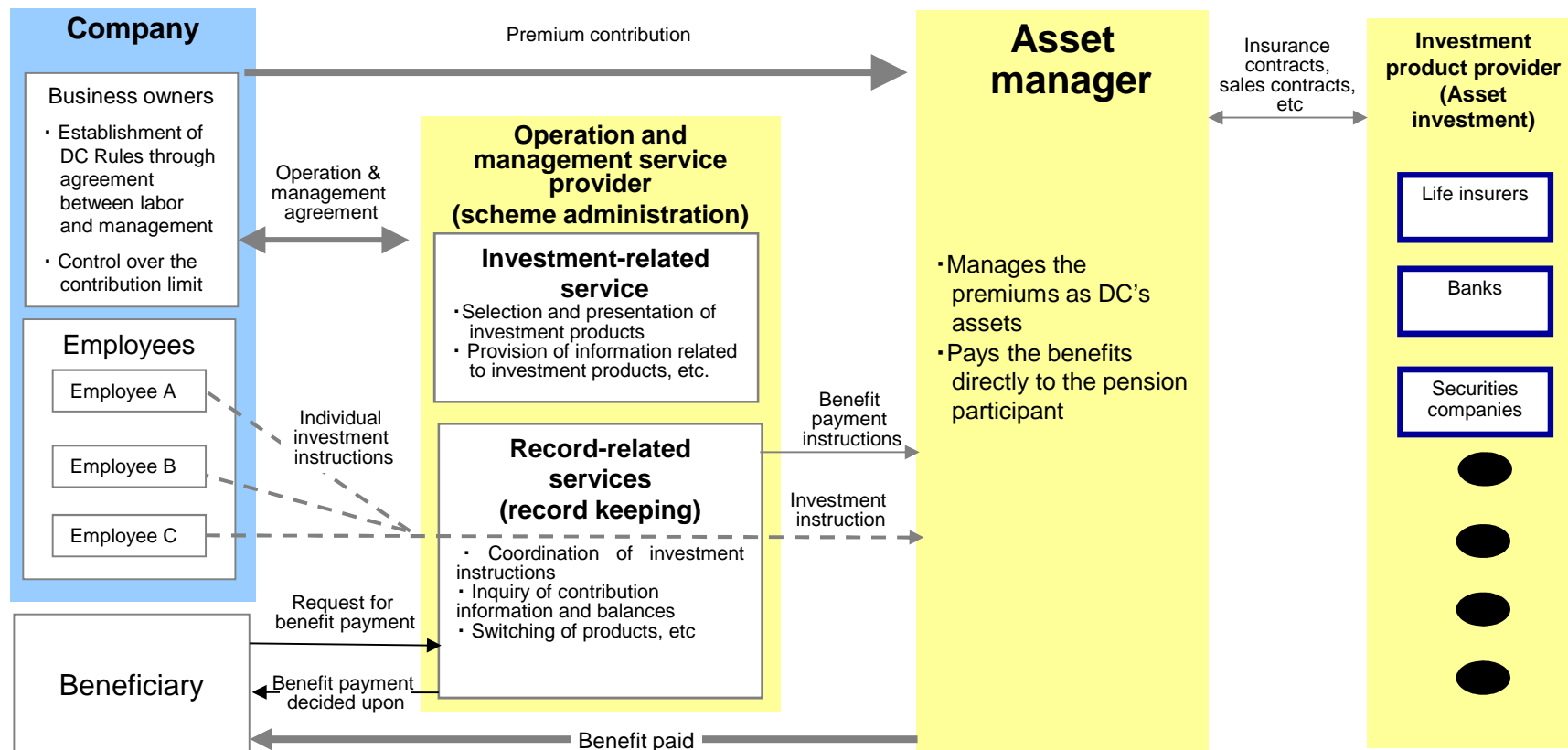
[Reference 3] “Guaranteed Rate + Dividend Rate” for General Accounts and the Long-Term Prime Rate



II-3. Major Players in the Japanese Corporate Pension Business ②

- Furthermore, in the defined contribution benefit domain, the entry of any and all kinds of financial institutions including banks, securities companies, and non-life insurance companies was approved in addition to the traditional players of trust banks and life insurance companies, which triggered intense competition.

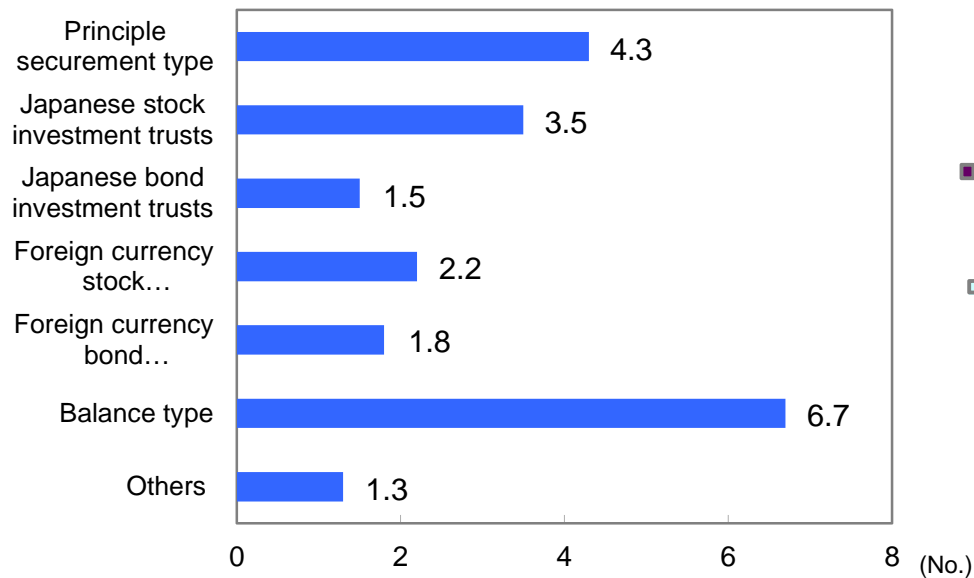
[Structure of the defined contribution pension plan (corporate) in Japan]



Almost all financial institutions can serve as an operation and management service provider/investment product provider (mainly, trust banks serve as asset managers)

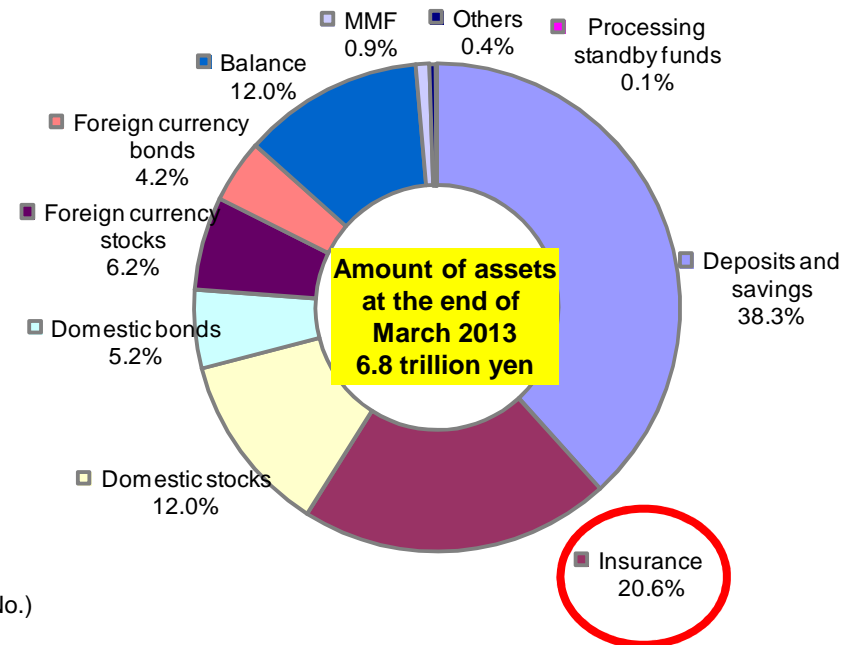
[Reference] Selection Status for Investment Products for Defined Contribution Pensions (Corporate)

■ Average number of investment products presented to participants



(Source) Fact-Finding Survey on Defined Contribution Pension Plans, Pension Fund Association

■ Asset balance ratio for each investment product



(Source) Statistical Data on Defined Contribution Pension Plans, Liaison Council for Operational Management Institution

① Handling changes to various standards

- We have considered migrating to defined benefit corporate pension plans or defined contribution pension plans and the accompanying revisions of retirement benefit plans mainly for companies with TQPP.
- Attention will be paid to overhauling pension schemes in the future in light of the shrinking of employees' pension funds, increasing rigor of financial management standards for pensions, and convergence with IFRS.
- ➔ We will provide accurate consulting based upon the changes to the various standards

② Further sophistication of asset investment

- Due to year prolonged downturn in the investment environment, harsh conditions remain for defined-benefit type pension financing. As a result, customers' asset investment needs are increasingly becoming sophisticated and diversified.
- ➔ Diversification of investment product offerings; sophistication of investment approaches (Penetration of alternative investment, ingenious investment styles with an eye towards phases when interest rates are on the rise going forward)
- ➔ Satisfaction of the requirement to reduce commissions (Penetration of passive investment)