If Japan follows the Swedish pension model

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Abstract

Based on the OECD Pensions at a Glance 2023 as well as national sources, we did a comparison of pension systems in Japan and Sweden. The performance of the Japanese pension system seems to be inferior when compared to similar pension expenditure per GDP in Sweden. If Japan were to learn from the Swedish pension model, (a) Gini co-efficient of the elderly, and eventually that of the total population, will improve and old-age poverty will be eradicated in Japan; (b) through fundamental reform of the Basic Pension as well as the improvement of replacement rate for high wage earners, the performance of the Japanese pension system will improve, and (c) as a result, the majority of the population, including those with low and high incomes, will support the pension system in Japan.

Key words: income distribution among the elderly, support for low-income pensioners, poverty of old age, public assistance

Introduction

The Japanese public pension reform in 2004 is expected to keep pension payments constant at around 9 percent of GDP through the end of the decade by allowing the model replacement rate (Note 1) to fall from 59 to 50% (OECD, 2023b). Generational equity is also a big concern in Japan, and the Japanese Government has chosen the way of adjusting benefit more slowly through “macroeconomy indexation” and placing a ceiling on the contribution rate. Macroeconomy indexation is an automatic balancing mechanism applied for a certain period of time. In order to make the public pension system less vulnerable to economic and demographic changes, the obvious options are to increase the normal pension age, to improve the management of the assets held by the public pension funds to raise the rate of return, to change the post-retirement indexation of benefits, to reduce the rate at which pension benefits accrue, and to increase the share of the national subsidy (Fukawa, 2007). Many of these options have been pursued fully or to some extent in recent reforms, but the following aspects have not yet been discussed adequately in Japan: (a) an increase in the normal pension age to beyond 65 years old; (b) changes to the benefit structure (departure from flat-rate benefit, multiple benefit accrual rates according to income level, etc.); and (c) adjustment of the system to adapt to the changing labor market (Fukawa, 2007).

Japan’s pension expenditure as a percentage of GDP is similar to that of Sweden. However, the performance of the Japanese pension system seems to be quite poor, and there are considerably serious concerns about the long-term sustainability of the public pension system in Japan. Low expectations about future pension benefits, coupled with a perception of intergenerational inequality in terms of lifetime contribution-benefit relations, are still leading

to an unwillingness to pay contributions to the public pension system in Japan, particularly among younger generations.

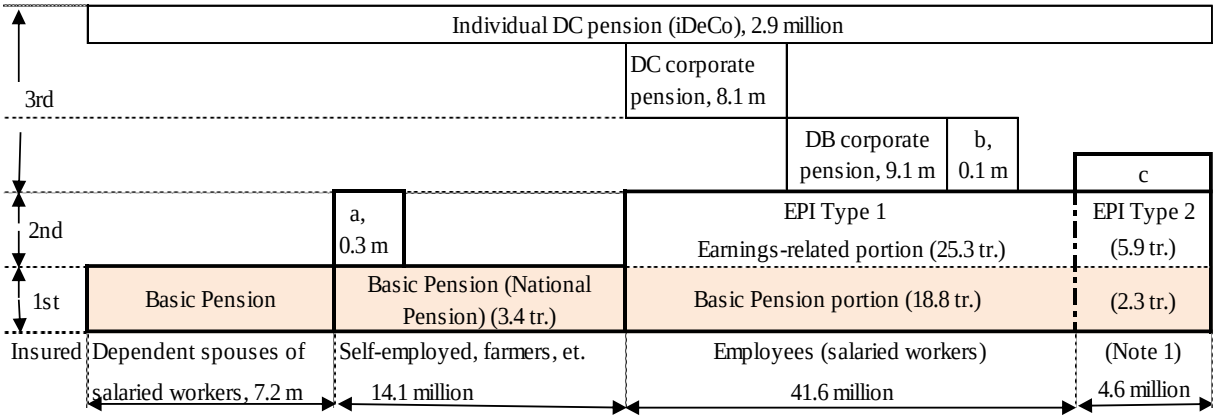
After a brief description of the pension systems in Japan and Sweden (Section 1), we compare the income security of the elderly as a whole in Japan and Sweden in Section 2. We focus on the features of pension systems in Japan and Sweden in details in Section 3, and in Section 4, draw some implications if Japan were to follow the Swedish pension model.

1 Overview of pension systems in Japan and Sweden

In Japan, the entire working population has been covered by a public pension system since 1961, but employees and the self-employed are covered by different schemes: the Employees' Pension Insurance (EPI) for employees and the National Pension (NP) for the self-employed, farmers and others. The Basic Pension (BP) scheme was created in 1986 as a first-tier pension for every person, and it provides a flat-rate benefit for every elderly person (Note 2). The EPI (Type 1) refers to the original EPI, and EPI (Type 2) refers to former Mutual Aid Pensions for public sector employees and teachers that have been unified under the EPI since October 2015. In order to help finance the first-tier pension, tax revenues equivalent to half of the Basic Pension benefit expenditure are transferred to this scheme by the central government. The National Pension provides only the Basic Pension (Figure 1). The full Basic Pension for 2024 is 816,000 yen per year, corresponding to 15% of full-time average earnings.

The EPI covers most of the employees in the private sector, although it does not cover many irregular workers. The contribution to the EPI is 18.3% of gross earnings, shared evenly by employers and employees. The second-tier earnings-related pension benefits are proportional both to the number of years of contribution and the average level of earnings. The amount of Old-age Pension received by retired employees is the sum of the Basic Pension portion and the earnings-related portion (Figure 1).

The third tire of the Japanese pension system is comprised of corporate pensions and individual pensions. Corporate pensions consist of defined benefit and defined contribution schemes. The latter was instituted in 2001 to protect beneficiaries and ensure the portability of reserves. Employees' Pension Funds were once the major corporate pension in Japan, but these schemes are fading away. About 42% of employees in private sector are covered by corporate pensions. Individual defined contribution pension (iDeCo) is available for every worker, but it has not yet become a mainstream scheme.

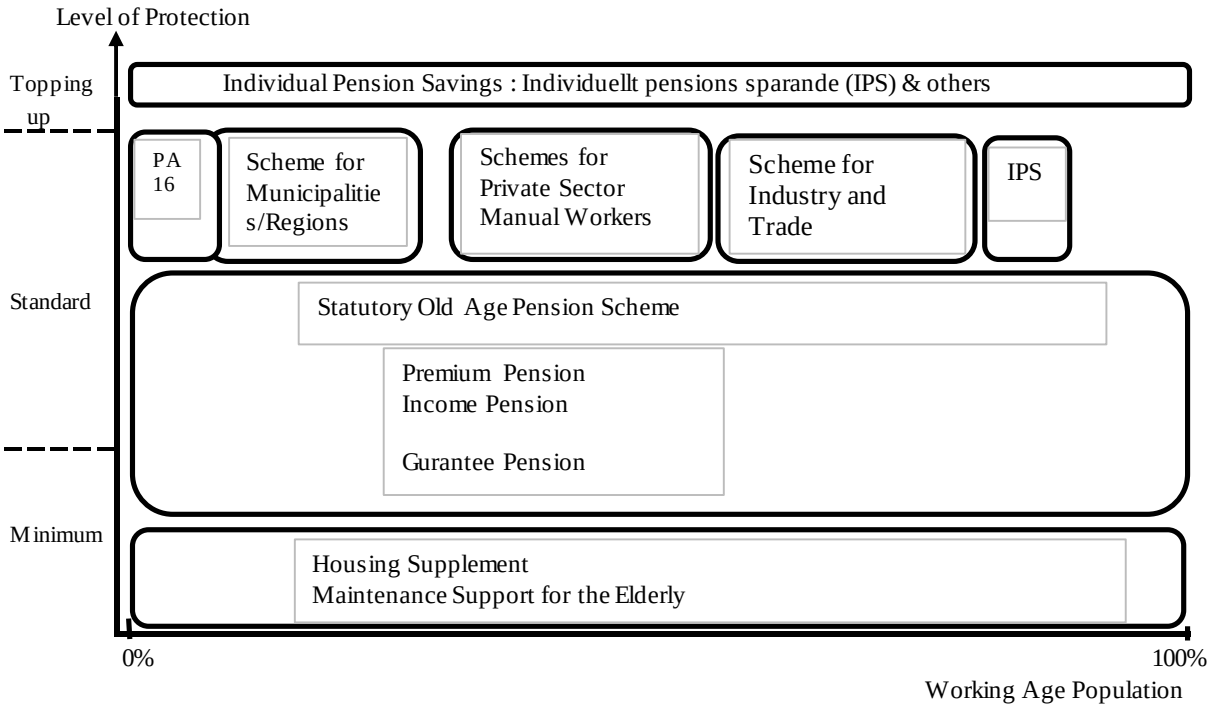


Note 1: Mutual Aid Pensions for public sector employees and teachers have been unified under the EPI since October 2015.
Note 2: a= National Pension Fund, b= Employees' Pension Fund, c= Occupational part.
Note 3: DB= Defined benefit, DC= Defined contribution.
Note 4: Every insured person can voluntarily participate in the Individual DC pension (iDeCo) plans.
Note 5: Benefits amount in parenthesis in trillion yen in FY2022.
Source: MHLW (2024)
Figure 1 Pension System in Japan: March 2023

The Swedish pension system consists of three parts: a national public pension, an occupational pension from employers and pension from own savings for retirement. Public pension is made up of several components such as Income Pension, Premium Pension and Guarantee Pension (Figure 2). Everyone in gainful employment in Sweden earns pension entitlements for two types of income-related pensions: the Income Pension and the Premium Pension. The Income Pension is pay-as-you-go (PAYG)-financed based on pension benefits earned in relation to the contributions paid (notional defined contribution). This part of the public pension scheme is kept apart from the rest of the state budget. The contributions to the Premium Pension are deposited in individual pension accounts and invested in the private funds of choice of the insured person; a passive fund solution is also provided. Pension rights are awarded for each year of work and payment of contributions.

A tax-financed Guarantee Pension based on residence criteria is provided for those over 65 years with insufficient income-related pension. Persons must have lived in Sweden for a minimum of three years, with 40 years of residence being required for a full Guarantee Pension, and the pension is reduced proportionally for those with shorter residence periods (Erhag, 2021). The Guarantee Pension benefit is available from the age of 65, increasing to 66 in 2023 and 67 in 2026 (OECD, 2023c). Housing Supplement is available to those who have low pensions, and the Maintenance Support for the Elderly guarantees a fair standard of living to those who receive a low pension or no pension and live in Sweden (Figure 2). The income-tested Maintenance Support for the Elderly, being a part of the social security and pension system, guarantees a decent standard of living for persons who receive little or no pension or other means of income, and all other benefits to which the person is entitled such as Income Pension, Premium Pension, Guarantee Pension as well as the Housing Supplement

for pensioners, must be claimed before qualifying for Maintenance Support (Erhag, 2021).



Note: IPS for self-employed and employees outside collective agreement.
Source: Erhag (2021)
Figure 2 Pension System in Sweden: 2020

As a part of the public pension, survivor's pension and disability pension are available separately from old age pension. Survivor's pension is intended to cover part of the supply provided by the deceased.

Most people who work in Sweden receive an occupational pension from their employer. Occupational pension schemes are mandatory in both the public and the private sectors and are based on collective agreements. There are four major occupational plans: blue-collar workers in the private sector (SAF-LO), white-collar workers in the private sector (ITP), central government employees (PA16), and local government employees. Occupational pension benefit schemes are estimated to cover more than 90% of employees (Erhag, 2021). The self-employed and employees without an occupational pension based on collective agreement can participate in occupational schemes on a voluntary basis. They can choose voluntarily to pay contributions into private schemes; they can also opt for so-called individual pension savings (IPS) (Erhag, 2021; Note 3).

2 Economic situations of the elderly in Japan and Sweden

Table 1 compares the economic situations of the elderly aged 66 or over relative to the working age population (18-65 years old) in 6 countries. Economic situations are measured by mean disposable income and Gini coefficient in

this table. The mean disposable income of elderly in Japan is 75% of that of the working age population, which is lower than that of the figure in Sweden (82%). Pension benefits are quite important for the majority of the elderly in every country, but income sources of the elderly are different in each country. The elderly in Japan rely more on earnings, but the elderly in Sweden rely more on occupational pensions, as we will expand on latter. There is greater income inequality among the elderly compared to the working age population in both Japan and Sweden, but the elderly in Japan suffer a considerably high level of inequality compared to their Swedish counterparts, as the Gini coefficient of the elderly in Japan is 0.337 compared to 0.299 for the elderly in Sweden.

Table 1 Economic situation of the elderly compared to the working age population in 6 countries: 2021

(income in 1,000 national currency)

		France	Germany	Japan	Sweden	UK	USA
		2020			2022		2022
Mean disposable income							
Total population		28.93	30.85	2,940	385.2	25.20	58.02
18-65	a	30.20	32.32	3,310	409.1	27.25	61.26
66 years old and over	b	27.84	27.78	2,470	336.4	21.36	52.60
b / a (%)		92	86	75	82	78	86
Gini coefficient							
Total population		0.298	0.303	0.338	0.290	0.354	0.396
18-65		0.301	0.299	0.331	0.283	0.355	0.389
66 years old and over		0.274	0.303	0.337	0.299	0.328	0.408

Source: OECD Income Distribution Database. (accessed in September 2024)

Based on the OECD Social Expenditure Database, Table 2 compares Social Expenditure by branch in Japan and Sweden. Japanese social expenditure (Public + Private) was 28.0% of GDP in 2020, which was similar to Sweden's expenditure of 28.7% in 2019. However, the distribution by branch is quite different between Japan and Sweden. Compared to Sweden, Japanese social expenditure is higher in the Survivors and Health categories, but lower in the Incapacity-related and Family categories. If we focus on old-age and survivors' pension expenditure as a percentage of GDP, public pension would be 9.6% in Japan and 7.0% in Sweden, and private pension would be 2.6% in Japan and 2.9% in Sweden (Table 2). Therefore, Japanese pension expenditure seems to be higher than that of Sweden. However, a different picture emerges in Section 3, based on national sources.

3 How pension works in Japan and Sweden

(1) Japan

According to the national sources, the total public pension expenditure (including survivors' and disability pensions) in FY2022 was 55.7 trillion yen in Japan (Table 3). As the EPI benefit is the sum of Basic Pension portion and earnings-related portion, this total amount is broken down as follows: (Basic Pension portion + earnings-related portion; see Figure 1)

- EPI (Type 1): 18.8 + 25.3 = 44.1 trillion yen;
- EPI (Type 2): 2.3 + 5.9 = 8.2 trillion yen; and

Table 2 Social Expenditure in Japan and Sweden

		Japan (100 billion yen), 2020				Sweden (billion SEK), 2019			
		Public	%	Private	%	Public	%	Private	%
Old Age		469.4	8.71	144.4		458.9	9.09	146.6	
Pension	a	454.9	8.44	138.7	2.57	339.9	6.73	146.6	2.90
Other cash		2.7		5.8		1.2			
Benefits in kind		11.9				117.8			
Survivors		64.2	1.19			11.6	0.23		
Pension	b	62.8	1.16			11.1	0.22		
Incapacity-related		65.8	1.22			170.1	3.37	25.8	
Disability Pension	c	21.8	0.40			38.3	0.76		
Injury Pension		4.0				2.0			
Benefits in kind		29.8				88.0			
Health		559.0	10.37	19.2		331.5	6.56	6.4	
Family		107.5	1.99			172.7	3.42		
Active Labour Policy		40.2	0.75			51.3	1.02		
Unemployment		12.7	0.24			16.4	0.32		
Housing		6.0	0.11			19.0	0.38		
Other Social Policy		19.7	0.37			34.6	0.69	1.6	
Total		1,344.6	24.9	165.2	3.1	1,266.1	25.1	180.4	3.6
Pension (a+b)		517.7	9.6	138.7	2.6	351.0	7.0	146.6	2.9
Pension (a+b+c)		539.5	10.0			389.3	7.7		
GDP		5,390.8				5,049.6			

Note 1: Injury Pension means occupational injury and disease pension.
Note 2: % means percent of GDP.
Source: OECD Social Expenditure Database accessed in Feburary 2024.

- National Pension: 3.4 trillion yen.

Total Basic Pension expenditure was 24.5 trillion yen (18.8+2.3+3.4), and half of it was financed by the central government subsidy.

The EPI provides not only old age pension but also survivors' pension and disability pension. The contribution rate of the EPI is 18.3% of gross earnings shared evenly by employers and employees. There is a ceiling on earnings applied to calculate contributions and benefits, and it is set at 650,000 yen per month, equivalent to 151% of full-time average earnings (Table 5).

Normal pension age is 65 years old for the Basic Pension (BP), and also 65 years old for the EPI for men after 2025 and for women after 2030. Early retirement at a reduced benefit is possible at the earliest at 60 years old in both the basic and earnings-related schemes. The benefit is reduced by 0.4% per month of early retirement, i.e. 4.8% per year. Late retirement is possible between the ages of 65 and 75, and deferral increases the pension benefit by 0.7% per month, i.e. 8.4% per year. Pension rights continue to accrue for each month of contribution after the ages of 65 to 70 if individuals keep working and insured (Note 4). Since 2007, it has been possible to combine work and pension receipts after 65 years old, provided that the total income (from earnings and pension) does not exceed the

base amount (470,000 yen per month in 2022). Above this limit, half of the excess will be reduced from the earnings-related pension payment, but the basic pension will be paid in full.

Table 3 Expenditure of public pension in Japan and Sweden

Public pension in Japan (trillion yen)					Public old age pension in Sweden (billion SEK)						
	2021	%	2022	%		2019	%	2020	%	2021	%
EPI Type1	44.4	8.0	44.1	7.8	Income Pension	314.7	6.2	326.3	6.5	347.2	6.4
EPI Type2	8.5	1.5	8.2	1.4	Premium Pension	10.9	0.2	14.0	0.3	17.8	0.3
Nationa Pension	3.3	0.6	3.4	0.6	Guarantee Pension	13.2	0.3	14.3	0.3	14.0	0.3
Total	56.1	10.1	55.7	9.8	Total	338.8	6.7	354.6	7.0	379.0	6.9

Note: % means percent of GDP.
Source: Figure 1 for Japan and Orange Reports and Svenskt Naringsliv (2023) for Sweden.

The ways of revaluating previous earnings as well as adjusting benefits after retirement are also important factors that influence the size of public pension expenditure. The former is in line with net wage increases, and the latter is in line with consumer price increases minus adjustment rate (0.3%).

Dependent spouses of employees are entitled to the BP benefit without paying contributions, leading to views that the system favors single-income families.

(2) Sweden

According to figures from Insurance Sweden, in 2021, pension payments amounted to SEK 365 billion from the Swedish Pensions Agency, SEK 121 billion from occupational pensions and SEK 115 billion from private pensions (Svenskt Naringsliv, 2023). In addition, tax-funded allowances (Guarantee Pension, Income Pension Complement, Housing Supplement for pensioners and Maintenance Support for the Elderly) amounted to SEK 28 billion in 2021 according to the government budget for 2023 (Svenskt Naringsliv, 2023). Abovementioned SEK 365 billion **(**6.7% of GDP) was the sum of Income Pension (SEK 347.2 billion, 6.4% of GDP) and Premium Pension (SEK 17.8 billion, 0.3% of GDP; Table 3). Guarantee Pension payment which is part of tax-funded allowances was SEK 14.0 billion (0.26% of GDP) in 2021.

The contribution rate of the public old age pension scheme is 18.5% of pensionable earnings (earnings minus employee contribution), which means that the actual contribution rate is 17.21% (Note 5). Out of 18.5% of pensionable earnings, 16% is allocated to the Income Pension and 2.5% to the Premium Pension, which means that 14.88% of gross earnings to the notional accounts system and 2.33% to the defined contribution funded pensions.

Retirement age is flexible (Note 6) and pension rights increase if a person stays in employment. The earliest age for withdrawing the earnings-related national pensions goes up from 63 in 2023 to 64 years old by 2026 (OECD, 2023c). Contributions are only levied when annual earnings exceed the low floor of SEK 20,431 in 2022, just over

4% of average earnings, although they are levied on the full earnings for those earning above the floor (OECD, 2023c). There is a ceiling on earnings applied to calculate employee contribution and benefit, and it was set at gross earnings of SEK 572,970 in 2022, equivalent to 116% of full-time average earnings (OECD, 2023c). Income above this ceiling does not accrue pension, although employer contributions are paid on all earnings including those above the ceiling.

In 2021, an Income Pension Complement was introduced (OECD, 2023c). The size of the income complement depends on the size of the income-based national pension and the number of years with pensionable income in Sweden. The Income Pension Complement is a maximum of 600 SEK per month.

Occupational pension schemes, financed through employers' contributions, provide a supplement to the public system and a top-up for incomes above the public pension system ceiling. These schemes are more important for high-income earners.

Table 4 shows a baseline projection of pension expenditure in Sweden based on the European Union (2023). The Premium Pension will mature gradually and grow in importance until 2050, and gross public pension expenditure as a percentage of GDP will increase from 7.6% in 2022 to 8.0% in 2070. Other than the old-age pension, disability pension is relatively small, and survivors' pension is being phased out. The occupational and private individual pensions are mainly DC and sensitive to the interest rate, which is assumed to be lower than income growth, leading to smaller pensions compared to PAYG systems (European Union, 2023). The private individual pension will gradually fade out due to the abolition of tax deductibility for wage earners in 2016 (European Union, 2023).

Table 4 Pension expenditure projections in Sweden

(in % of GDP)

	2022	2030	2040	2050	2060	2070
Public pension	7.6	8.0	8.0	7.8	8.1	8.0
Old-age pension	6.8	7.0	6.9	6.9	7.2	7.2
Income Pension	6.1	5.7	5.2	4.9	5.0	4.9
Premium Pension	0.3	0.5	0.7	0.8	0.8	0.8
Tax-funded allowance	0.4	0.8	1.0	1.2	1.4	1.5
Disability pension	0.7	0.9	1.0	0.9	0.9	0.8
Survivors' pension	0.2	0.1	0.0	0.0	0.0	0.0
Private pension	2.0	2.0	1.9	1.7	2.0	2.2
Occupational pension	1.7	1.8	1.8	1.7	2.0	2.2
Individual pension	0.3	0.2	0.1	0.0	0.0	0.0
Total pension expendiyure	9.6	9.9	9.9	9.5	10.2	10.2

Source: European Union (2023).

(3) Comparison between two countries

The contribution rate of public old age pension is 17.21% of gross earnings in Sweden. The corresponding rate in Japan is unclear, because the EPI's contribution rate, at 18.3% of gross earnings, is not only for old-age pension but also for survivors' and disability pensions, and there is a national subsidy for the Basic Pension portion. Old-age pension makes up about 84% of the total public pension expenditure in Japan. If we assume that old-age pension of the EPI is financed by contribution alone, the corresponding contribution rate would be 19.5% of gross earnings (Note 7). On the expenditure side, public pension expenditure / GDP is 10.1% in Japan and 8.2% in Sweden, and private pension expenditure / GDP is 2.6% in Japan and 4.3% (occupational pension 2.2% + voluntary pension 2.1%) in Sweden as shown in Table 5.

Concerning the old age pension of the EPI, the earnings-related benefits accrue at the rate of 0.548% of earnings per year. According to Table 5, the effective accrual rate of a male full-career average earner who retires at age 65 in 2065 in Japan will be 0.50% of earnings, which is quite low compared to 0.80% of Income Pension alone in Sweden.

Table 5 Indices on pension in Japan and Sweden

	Japan			Sweden		
Pension expenditure (% of GDP)	Public	Private	Total	Public	Private	Total
	2021	2020		2021	2021	
	10.1	2.6	12.7	8.2	4.3	12.5
1st Tire	Targeted	C- Basic		Targeted		
Benefit value (% of gross Average Wage) 2022	18.2	15.1		23.7		
Recipients (% of population aged 65 or over) 2022	3	92		47		
Earnings-related part						
Effective accurual rate of a male full-career average earner (% of earnings)	DB			NDC	Premium P	FDC
	0.50			0.80	0.16	0.28
Ceiling for pensionable earnings (multiple of average earnings)	DB			NDC	Premium P	FDC
	2.39			1.16	1.16	none
Gross pension replacement rates (% of earnings) by earning levels (multiple of mean)	0.5	1.0	2.0	0.5	1.0	2.0
Mandatory Public	43.3	32.4	26.9	49.0	49.0	28.4
Mandatory Private				13.3	13.3	48.0
Total mandatory	43.3	32.4	26.9	62.3	62.3	76.4
Gross pension replacement rates (% of earnings) of average earner with dependent spouse						
Total mandatory		43.3			74.1	
Full-time gross Average Wage 2022 (in thousand)	Yen	US$, PPP		SEK	US$, PPP	
	5,154	52.8		494.5	56.5	

Note 1: Public pension expenditure in Sweden is the sum of old age pension (6.7%+0.5%)+disability pension (0.76%)+survivor's pension (0.22%).

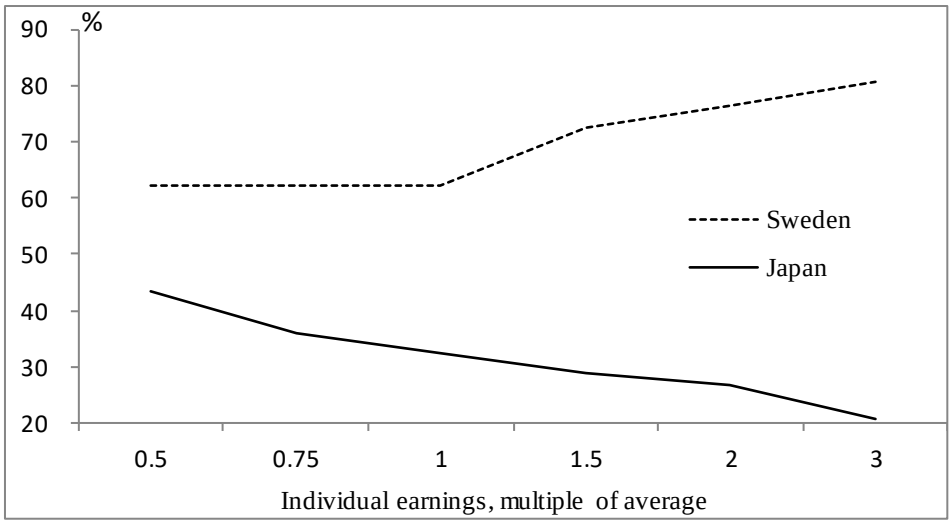
Note 2: NDC means Income Pension and FDC means occupational pension schemes.

Note 3: Private pension expenditure in Sweden is the sum of occupational pension (2.2%)+voluntary private pension (2.1%).

Source: OECD Pensions at a Glance 2023, Table 3 and Svenskt Naringsliv (2023).

Figure 3 shows the gross replacement rate of old-age pension from public and mandatory private systems according to the individual earnings level of an insured person retiring at age 65 in 2065 in Japan and Sweden, based on a simulation assuming that inflation rate is 2%, real wage increase rate is 1.25% etc. From this figure, we can see that the gross replacement rate of old-age pension in Japan is low for low-wage earners but astonishingly low for high-wage earners, compared to their Swedish counterparts.

For those who receive an insufficient income-related pension, there exist not only a tax-financed Guarantee Pension but also a Housing Supplement and Maintenance Support for the Elderly that are a part of the pension system in Sweden, in order to guarantee a decent standard of living. Many are benefited from the Guarantee Pension but its actual cost was only 0.3% of GDP in 2021. On the other hand, in Japan, there are no special programs for low pension elderly persons other than public assistance.



Source: OECD Pensions at a Glance 2023: Country Profiles- Japan and Sweden.
Figure 3 Gross replacement rate of pension from mandatry system for an insured person retiring at age 65 in 2065 in Japan and Sweden: as % of individual gross earnings

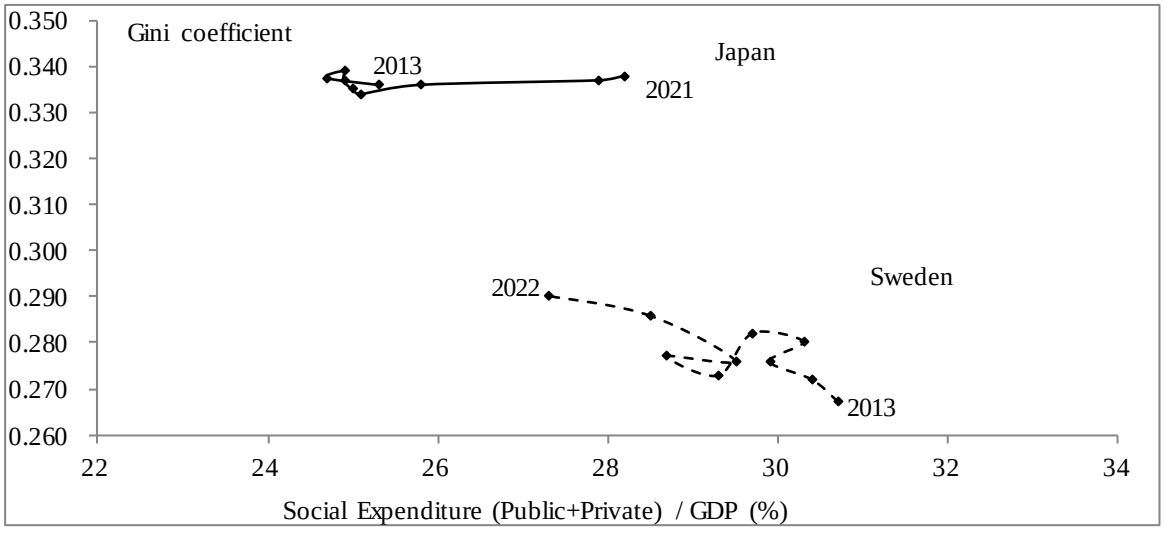
4 Discussions

Japanese public pension expenditure was 10.1% of GDP in 2021, compared to 8.2% of GDP including tax-funded allowances in Sweden. However, occupational pension plays a very important role for high wage earners in Sweden. Total pension expenditure including private pension as a percentage of GDP is similar between two countries (12.7% in Japan and 12.5% in Sweden). There is no income redistribution in the Swedish public pension, but support for low-income pensioners is well developed and the entire population, including the elderly, enjoys a smaller degree of disparity in Sweden. Although public pension does not provide sufficient replacement rate for high-income pensioners like in Japan, occupational pension works alongside public pension to provide a high replacement rate for them in Sweden.

One important objective of the Guarantee Pension in Sweden, and to some extent the Housing Supplement, is to make sure that the poorest pensioners are not falling too far behind other income groups, and wage indexation is therefore a realistic alternative to price indexation or ad hoc political decisions to update benefits on a regular basis (Nelson, Nieuwenhuis, and Alm, 2019). There is no guarantee pension in the Japanese public pension system, and as a result of the lack of support for the elderly with low pensions, they are obliged to work or to apply for public assistance in Japan.

People need to maintain the standard of living they are accustomed to, even after retirement. This can be achieved through a combination of public and private arrangements. A single, unified statutory pension scheme provides earnings-related benefits to all workers in Sweden, and an extensive system of mandatory and collectively negotiated occupational pensions is a vital part of the overall pension system (Anderson, 2015). In Sweden, 90% of all workers are covered by collectively negotiated occupational pension schemes, most of which are defined contributions with individual investment choice, adding an average of 10% to income insured by the statutory pension system (Anderson, 2015). It is understood in Japan that the main function of pension system is to cope with the loss of earnings after retirement. However, there is no coordination between public and corporate pension systems in Japan. Pension expenditures (public + private) are similar in Japan and Sweden, but the functions performed by the pension system are quite different between the two countries.

Figure 4 plots social expenditure (Public + Private) as a percentage of GDP on the x-axis and Gini coefficient of equivalized disposable income of the total population on the y-axis for Japan and Sweden from 2013 to 2021/22 (Note 8). Social expenditure / GDP has matured and is decreasing considerably in Sweden, which is not the case in Japan particularly after the impact of the COVID-19 pandemic. The Gini coefficient has remained high in Japan and is moving upwards in Sweden, although income distribution is still much worse in Japan than in Sweden.



Source: OECD Data Explorer. (accessed in September 2024)

Figure 4 Social Expenditure/GDP (x axis) and Gini coefficient of the total population (y axis) in Japan and Sweden: 2013-2021/22

The redistribution strategy in Sweden is based on a combination of social insurance and universal benefits complemented by targeted benefits, implying a strong middle-class inclusion in the system of social protection and a majority of the population being both contributors and beneficiaries of the system of social protection (Palme, 2006). The Swedish Model is often characterized as a comprehensive welfare state with a strong commitment to full employment for all its members. While this is accurate, there are four crucial elements to the Swedish Model: benefit programs, including public provision of goods and services and cash benefits; a tax regime necessary to finance them; its system of market regulation; and the cultural and demographic factors that constitute the foundational material of its political and economic institutions and delimit the policy options available to politicians and voters (Zelleke, 2016).

In Japan, there is the intension to redistribute income through the public pension system, but no measures have been implemented towards a strong middle-class inclusion in the system. Japan is a completely different society from Sweden in terms of population size, social backgrounds, income distribution of the population (as seen in Figure 4), and the performance of the pension system. However, there are still many points Japan can learn from the Swedish pension systems. Support for low-pension elderly, regardless of whether it is within or outside the pension system, does not require a large amount of money and has remarkable distributive impact. It is transparent to separate disability pension and survivors' pensions from old age pension, and to finance the latter by contribution alone. The pension system must be supported by the general public, including high income workers and the young generations, and fairness and transparency of the system are important to this end.

The followings are some concrete measures to be addressed to enhance the reliability of the Japanese public pension system (Fukawa, 2007):

- To define the type and scope of benefits to be financed by tax revenue;
- To make the system neutral from a person's occupation; and
- To design both contributions and benefits as earnings-related (namely, eliminate flat-rate contributions/benefits) and save expenditure through a lower replacement rate for higher income.

These issues are still unsolved, and the Japanese public pension system is losing public trust. The Japanese pension system would become more sustainable if the birth rate were to rise in Japan. However, Japan has failed for more than 30 years to help families and reduce the cost to women of working and having families. Various options such as (a) an equal treatment of regular and irregular workers, (b) a further increase in the normal pension age, (c) multiple benefit accrual rates according to income level, which have been tried and implemented in other developed countries, are still open questions in Japan.

Japan's public assistance system is designed to guarantee a minimum standard of living by providing benefits according to need. As of September 2024, public assistance was provided to 1,651,000 households and 2,008,000 individual beneficiaries (1.6% of the total population). The elderly make up the majority of the beneficiaries. If

support for low-income pensioners were improved, the public assistance system could focus on working age population in the same way as in Sweden.

If Japan follows the Swedish pension model, (a) Gini co-efficient of the elderly, and eventually that of the total population, will improve and old-age poverty will be eradicated in Japan; (b) through the fundamental reform of the Basic Pension as well as the improvement of replacement rate for high wage earner, the performance of the Japanese pension system will increase, and (c) as a result, the majority of the population, including those with low and high incomes, will support the pension system in Japan.

Notes

(Note 1) Model pension refers to the Old-age Pension benefit for male employees with a dependent spouse, and who have earned average earnings for 40 years. The model replacement rate is the proportion of model pension to the average net earnings of male employees.

(Note 2) Participation in the Basic Pension is mandatory for all residents between the ages of 20 and 60, and monthly contribution per participant has been a flat amount of 17,000 yen since April 2024. The Basic Pension provides a flat rate benefit but it is proportional to the number of years of contribution, and 40 years of contribution is required to receive full Basic Pension. The second-tier contribution includes the first-tier contribution for both employees and dependent spouses of employees.

(Note 3) Individual Pension Savings (IPS) serve as a "top up" to public and occupational pension benefits for persons who are covered by other forms of "standard protection" in old age. However, incentives for joining private pension schemes changed in 2016, when the right to tax deductions on premiums of the IPS were abolished. Therefore, individuals commonly opt for voluntary extra payments to the available occupational pension schemes. Another alternative for private savings, also for old age, is the Investment Savings Account (ISK) that functions as a deposit for different kinds of financial instruments. This type of saving is not limited to old age protection and not tied to a specific retirement age.

(Note 4) Workers over 70 years old do not need to pay contributions.

(Note 5) The employee pays 7.0% of earnings with an upper ceiling and the employer pays 10.21% of earnings without an upper ceiling. The total contribution rate of 17.21% is equivalent to 18.5% of pensionable earnings (17.21 / (1 – 0.07) = 18.5).

(Note 6) Regardless of the flexibility in the reformed pension system there is a strong tendency to claim public pension at age 65, which was the statutory retirement age under the old system (Regeringskansliet, 2020).

(Note 7) 18.3 x 0.84 x (18.8 + 25.3) / (18.8 / 2 + 25.3) = 19.5

(Note 8) Japanese Gini coefficients are scattered, and hypothetical data was used for missing years.

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