

Replies to Mr. Settergren's Comments

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1. Can the Real Wage Rate Increase Faster than the GDP

- Yes, in the past, GDP grew faster than the Real wage rate. Here, the (w/p) is “the real GDP growth rate per labor force (including the self-employed).”
- Even in the economy under decreasing population, positive economic growth can be achieved if positive capital formation can be maintained and the TFP can be increased enough to compensate for decreasing labor input.
- However, some economists are skeptical and pessimistic about it. (see A. Matsutani, 2004)

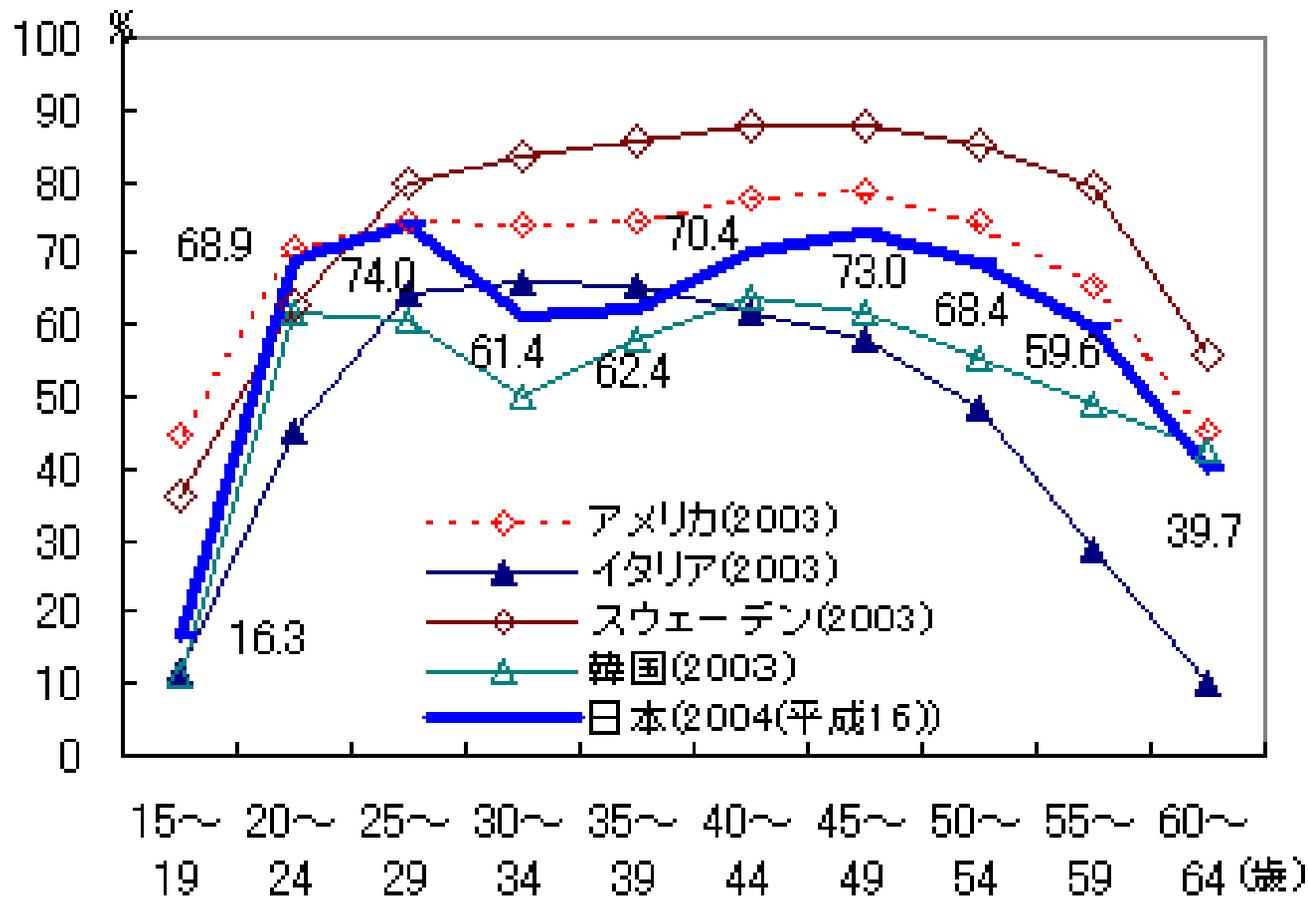
2. Are not the Assumptions of the Basic Factors for the Pension Projection Too Pessimistic?

- Settergren says that such assumed basic factors as ($w/p=1.1\%$) and ($r/p=2.2\%$) are too pessimistic. On the other hand, Prof. Mitchell says that they are too optimistic.
- Hope that these problems shall be discussed further in the final session.

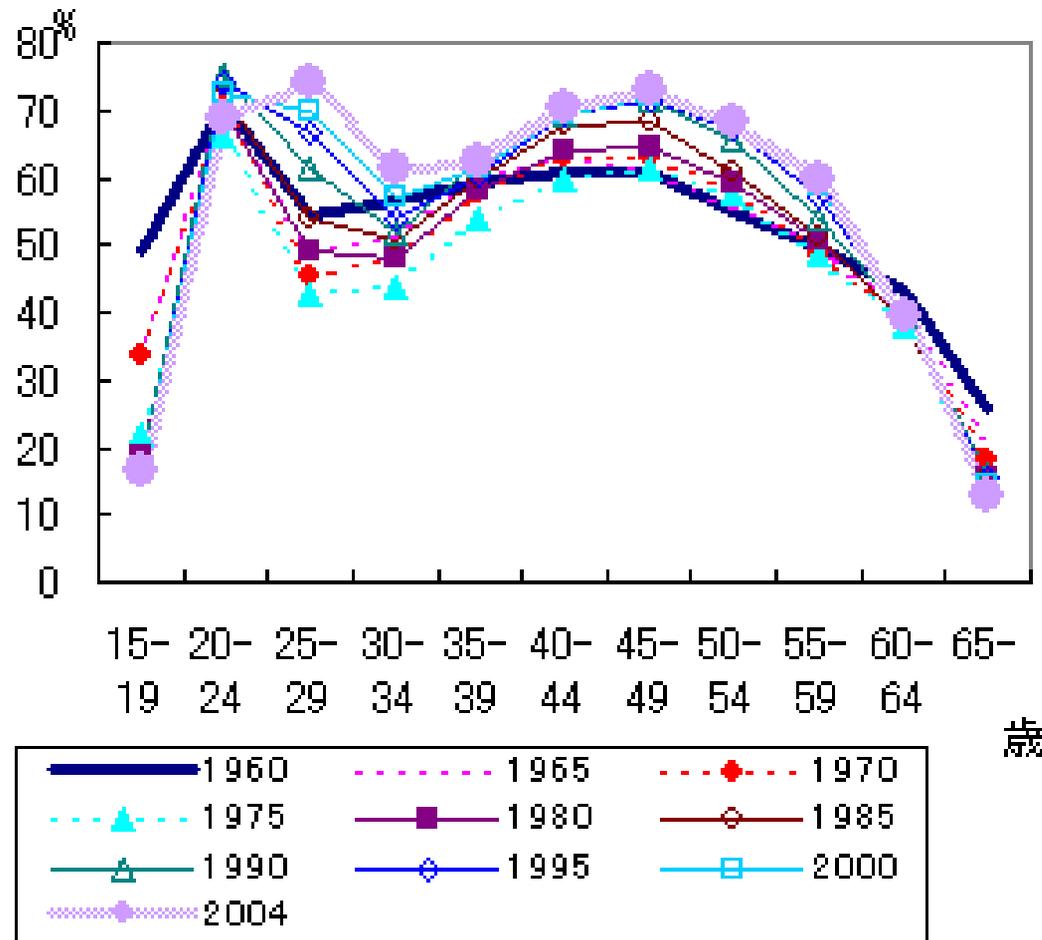
3. Can Labor Supply be Increased More?

- The future labor supply is estimated by age groups and gender. The male primary labor force based on the past trend. For female and aged labor force, several policy options are intentionally selected.
- The M-shape of female labor force participation rates by age groups has been modified considerably toward the U-shape, but remains. More positive policies to encourage female labor force participation are highly desirable.
- Few propose for shorter education of young people, despite the increased number of NEET.

An International Comparison of the Female Labor Force Participation Rate by Age Group



The Changed M-shape of Female Labor Force Participation Rate in Japan



4. Should the Pension Age be Increased to 67?

- As Explained in my presentation on Q5, we are in the transition period of both pension age from 60 to 65 and the compulsory extension of employment after the mandatory retirement age at 60.
- Need more time to proceed to the further extension of the pension age.
- Need to pay more attention to the future increase of the poverty line visa-vi the basic pension under the ABM.

5. Projection of the Life Expectancy (Longevity) after 65

- The projected life expectancy is not an appropriate measure to be used for pension planning?
- Actual life expectancy of pensioners after 65 should be used?
- Discuss in the final session.

6. How much does the Basic Pension Cost if Financed by the Contribution? How much does the Contribution Rate Increase without the Government Subsidy ?

- Strictly speaking, the contribution rate of the EPS can not be separated into the basic pension's and the 2nd floor parts.
- The Basic Pension's share in the total EPS contribution rates changes annually.
- In the benchmark years, it is estimated as follows:

The Basic Pension's Share in the Total Contribution Rate of the EPS and the Estimated Contribution Rate Without the Government ½ Subsidy

FY2009	The EPS Contribution Rate	15.7%
	Of which for the Basic Pension	4.2%
	Estimated CR without Gov. Subsidy	19.9%
FY 2025	The EPS Contribution Rate	18.3%
	Of which for the Basic Pension	4.3%
	Estimated CR without Gov. Subsidy	22.6%
FY 2050	The EPS Contribution Rate	18.3%
	Of which for the Basic Pension	6.1%
	Estimated CR without the Gov. Subsidy	24.4%

8. The Estimated Relative Decline of the Basic Pension Benefit by the Macroeconomic Adjustment: Might It not Push Down the Basic Pension Below the Subsistence Level?

- As I answered in my presentation on Q3, the amount of the basic pension benefit will maintain the level above the present poverty line.
- However, since the subsistence level will increase in accordance with the economic growth, the restrained basic pension benefits may fall below the subsistence level in the future.
- If the economy grows faster than the base case with resultant higher increase of wages and higher rate of investment return, and if the TFR recovers to the higher level, then the basic pension benefit will be maintained above the subsistence level.