

On the regulation of Employees' Pension Fund fiscal management

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Abstract

This paper present a new fiscal management method considering pension fund risk management to compliment the current present value subsidies method of Employees' Pension Funds which is a well-thought-out and sustainable mechanism to bridge the almost pay-as-you-go Employees' Pension Insurance System and the substitutional portion of Employees' Pension Funds seeking essentially a pre-funding system.

Keywords

Pension, Employees Pension Fund, Present Value Subsidy

1. Introduction

This paper proposes a new fiscal management method considering pension fund risk management to compliment the current present value subsidies method of Employees' Pension Funds which is a well-thought-out and sustainable mechanism to bridge the almost pay-as-you-go Employees' Pension Insurance(EPI) System and the substitutional portion of Employees Pension Funds(EPFs) seeking essentially a pre-funding system. The new method (hereinafter referred to "Interest Subsidies method) is the subsidy of interest which is calculated by multiplying assumed interest rate by the difference between minimum liability reserves and the advance funding present value. The advantage of this method is first the reduction of the burden of the EPI, and second the reduction of the risk (volatility) of the funding ratio(pension assets/minimum liability reserve), both of which is explained in detail in the following sections. The next section explains briefly the fiscal management and the investment of the substitutional portion of EPFs. Section 3 proves the reduction of the burden of the government in the case of interest subsidies method. The deterministic simulation of section 4 demonstrates the result of section 3. The stochastic simulation of section 5 shows not only the reduction of the burden of the EPI but also the reduction of the risk (volatility) of the funding ratio(pension assets/minimum liability reserve) . Section 6 summarizes the conclusions of previous sections. The opinions expressed or implied in

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