

Market and Benchmark Insight Report for Japan – 2020

Competitive benefit norms for for midmarket employers in Japan

Introduction

Cornes Insurance Agency ('Cornes') provides professional and independent employee benefit insurance advice to over 200+ corporate clients enabling them to select and offer the appropriate employee benefit insurance program to their Japan-based employees.

We have been operating in Japan in insurance since 1864 and employ bi-lingual staff who are able to help overseas brokers, consultants, and clients understand the Japanese marketplace. This includes providing industry benchmarking information in conjunction with insurers with whom we work.

This document highlights:

- Japan's benefits landscape
- Benefits menus that include mandatory requirements and insured benefit norms
- Typical benefit design and cost

We are proud to be an Asinta partner, and hope this document is of use to you.

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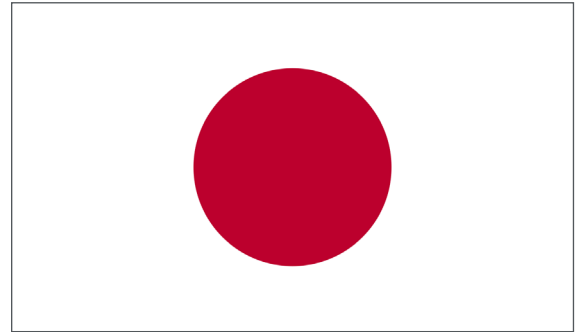
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Japan's Benefits Landscape

Employee benefits are important in Japan as they help recruit, retain and motivate employees, and reflect the employers' brand. They vary substantially, based on three key dynamics:

- Business sector
- Employee demographics (age, gender, occupation, and salary)
- Japanese or International Corporation



Business Sector

In sectors with a highly competitive hiring market, it is common to see strong occupational benefits offered. However, in blue collar and lower skilled industries in which employees are easy to acquire and replace, benefits in addition to the state system are often non-existent or far lower. We can provide sector specific benchmarking and advice on appropriate benefit designs, including fringe benefits.

Employee Demographics

Japan has a mixed economy with the two largest areas being Services making up 70% and Industry 28%. The GDP per capita is \$39,256 (2020) although there is a significant shift away from full-time employment towards part-time employment. Other than holiday, pension, health insurance, nursing care, unemployment benefits and certain maternity and paternity benefits, all benefits are at the employer's discretion in Japan. The cost of benefits is determined by a number of factors such as the level of benefits provided, but also the demographics of the workforce covered, such as age, gender, occupation and salary.

More comprehensive benefit packages are often provided to all employees in sectors such as banking, insurance and finance, as well as industries such as IT and high technology and pharmaceuticals. In other industries such as retail, the care sector, agriculture and manufacturing, certain benefits tend to be provided to senior employees only, with either none or very limited benefits being offered to other employees (other than mandatory benefits).

Japanese or International Corporation

The corporation's head office can make a big difference in the benefit provision and salaries. For instance, job seekers will tend to prefer Japanese corporations for their stability, long term viability in the Japanese market and traditional culture. In order to compete, international companies need to offer higher salaries and benefits to attract quality staff. Costs of compulsory insurances are the same for both Japanese and international companies but the international companies will have a higher cost per employee for salaries and benefits.



Mandatory Insurance in Japan (employee benefits related)

The range of mandatory benefits provided to employees in Japan are shown below:

Japan has four different kinds of insurance systems which companies are legally obliged to engage in. All workers that meet certain criteria are covered by the insurance.

1. Workers' Accident Compensation Insurance

This covers any illness or injury at work or while commuting to or from work.

2. Unemployment Insurance

This provides for workers that become unemployed and helps to maintain stable employment by providing financial aid and subsidies.

3. Health Insurance and Nursing Care Insurance

These cover medical and nursing care expenses incurred by workers.

4. Employees' Pension Insurance

This provides benefits for old age, death or disability.

A company must enter these insurance systems when first incorporating or hiring staff/workers by submitting labor and social insurance notification forms to the relevant authorities. The company usually pays insurance premiums by deducting the portion of the premium payable by employees/workers from their wages and paying these together with the portion of the premiums payable by the company to the relevant authorities.

Note: Insurance agents are not allowed to get involved in compulsory insurances in Japan.





As of 1st January 2020 – Japan's Mandatory Insurances

Insurance	Benefit	Coverage	Premium rate (% of total annual wage)		Remarks
			Employer pays	Worker pays	
Workers' Accident Compensation Insurance	Benefits are paid as compensation for medical expenses, work missed, disability or death incurred as a result of work or while commuting to or from work.	All businesses that employ workers must have this insurance.	0.35% (in cases of import and trade, and sales industries)		Special coverage available for employers Premium rates differ according to industry. 0.002% will be added to the premium rate for Workers' Accident Compensation Insurance for the time being in order to fund benefits for asbestos-induced diseases.
Unemployment Insurance	Benefits are paid to unemployed workers, workers on childcare leave and the elderly.	All workers whose prescribed working hours are not less than 20 hours per week must have this insurance.	0.6%	0.3%	Persons enrolled in unemployment compensation programs overseas are exempt.
Health Insurance and Nursing Care Insurance	Benefits are paid for illness or injury not arising as a result of work or while commuting, and for childbirth, etc.	All incorporated companies without exception and sole proprietorships with five or more regular employees are generally obliged to take part in the insurance.	4.950% (5.735% if aged 40 or over)	4.950% (5.735% if aged 40 or over)	By way of example, this premium rate applies only to Japan Health Insurance Association Run Health Insurance (in Tokyo). Maximum standard monthly remuneration: 1,390,000 yen
Employees' Pension Insurance	Benefits are paid for old age, disability, and death.	All incorporated companies without exception and sole proprietorships with five or more regular employees are generally obliged to take part in the insurance.	9.15%	9.15%	Lump-sum Withdrawal Payments for a foreign national when returning to his/her country. Maximum standard monthly remuneration: 620,000 yen
Child Benefits Contribution	Contribution to a social welfare system for child benefit and differs in nature from the welfare benefits offered to workers through their employers.		0.29%		Maximum standard monthly remuneration: 620,000 yen

When the remuneration exceeds the maximum amount of standard monthly remuneration, the insurance premium at the maximum amount of standard monthly remuneration shall be applied.



Insured Benefits – Design and Typical Limits

When designing a benefits strategy, employers should consider the sector, employee demographics, wider business objectives, HR resource and capability, and the employee value proposition. Data analytics are being more widely used in benefit strategy design to ensure the benefits offered best meet the needs of the organization's individual workforce, and that benefit spend is allocated efficiently.

Below we have shown the most popular insured employee benefits in the Japanese market and typical levels of cover.

Benefit	Comment/Cost	Lower Quartiles Approach	Medium Quartile Approach	Upper Quartile Approach
Medical Insurance	The Japanese compulsory national health plan provides for all employees including expats. Some companies take out a group 'top-up' medical expenses insurance either as a 'stand alone' policy or an endorsement to a corporate personal accident policy. These will seek to provide lump sum inpatient and medical operation expenses.	Inpatient daily allowance JPY5,000 incl. operation expenses.	Inpatient daily allowance JPY10,000 incl. operation expenses.	Inpatient daily allowance JPY15,000 incl. operation expenses.
Life Insurance	Typically, group life insurance schemes include lump sum benefits in case of death, accidental death and disability and usually amount to a multiple of each employee's salary.	All staff covered. Sum insured amount is JPY1,000,000 ~2,000,000.	All staff covered. Sum insured equal to 1 annual salaries.	All staff covered. Sum insured equal to 2x to 3x annual salaries.
Long Term Disability Insurance	The most valued benefit by employees. This type of insurance is becoming increasingly popular in Japan and typically will cover all staff for between 60% and 70% of monthly salary up to a maximum of JPY1.3m up to age 60 or 65 years.	All staff up to 50% for 5 years.	All staff up to 60% to age 60.	All staff up to 65% or 70% up to age 65.

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Insured Benefits – Design and Typical Costs continued:

Benefit	Comment/cost	Lower Quartiles Approach	Medium Quartile Approach	Upper Quartile Approach
Personal Accident	<p>Death and disability coverage due to professional or extra-professional accidents.</p> <p>Typically also includes a sum insured for treatment expenses.</p>	Only senior staff up to 1x annual salary	Only senior staff up to 2x annual salary	All staff covered up to 2x or 2.5x annual salary with medical top-up.
Workers' Compensation Insurance	<p>Mandatory cover by Law, it is nevertheless a benefit for the employees.</p> <p>Almost all foreign companies operating in Japan take out top-up workers compensation and employers liability insurance. If a claim under the mandatory policy is accepted by the Labour Ministry then any 'top-up' workers compensation and employers liability insurance will pay out automatically.</p>	All staff must be covered and the level of coverage is identical to all and determined by the applicable legislation.		



Wider Benefit Provisions

In addition to the benefits previously described, employers will often provide a wider range of benefits to help recruit and retain employees and support workplace wellbeing. The most common benefits are shown below:

Housing Allowance

The company bears part of the rent and repayment of the home loan. The average subsidy is JPY10,000 to JPY20,000 yen a month.

Commutation Allowance

This is a system in which the company bears part or all of the cost of commuting. The amount tends to be in line with the related tax law which allows companies to treat it as an expense to deduct from profit. The maximum deductible amount by law is JPY 150,000.

Family Allowance

The company will provide an allowance as a living aid if the employee has dependents. The benefit amount depends on the company and is not decided by law. Over 76% of companies provide family allowances. The average amounts are:

- Allowance for spouse: 10,000 yen to 15,000 yen per month
- Allowance for children: About 3,000 yen to 5,000 yen per month

Medical/Health check

The company will normally pay the basic cost for an annual medical examination. It is also the duty of the company to arrange for an annual stress check survey on all employees if the company employee number exceeds 50 staff.

Condolence

Cash is provided by the company for wedding gifts, birth gifts, injury and illness as condolence money. More than 85% of companies have introduced condolence benefits.

Company Perks

Below are examples of the more common company perks provided to employees.

Snacks

The employee cafeteria is costly and the hurdles to introduce it are high. Recently, services other than the employee cafeteria have been introduced and many can be started at low cost. The stand-alone company food service is a service where a dedicated refrigerator is installed in the office so that side dishes and rice are always available. Employees can purchase from JPY100 per item, and there is a rich lineup of main dishes ranging from hamburger steaks and grilled fish to side dishes such as pickles and simmered dishes.

Outsourcing Benefit

There are two types of outsourcing benefit, 'Package Service' and 'Cafeteria Plan.' With the 'Package Service', employees can use services that they have affiliated with in flat-rate system. On the other hand, with 'Cafeteria Plan' employees are provided with subsidies (points), and they can select and use services within that subsidies(points). The benefits depend on the outsourcing company. For example, discounts on tickets for theme parks, sports, music and movies, shopping benefits, facilities such as massages and sports clubs, use of facilities such as counseling and health checkups, free English and bookkeeping courses, housekeeping services, babysitting, discounts for childcare facilities and child care or nursing.

Group Benefit pools

More and more companies are signing up to a supplier of discounted goods and services where the scale of many employers can produce significant discounts on shopping, petrol, movie tickets, travel, and leisure activities.

Flextime system

Employees can work by deciding the start and end times of work each day so long as they work for a set minimum number of hours per month. More and more companies are introducing this system.



Setting Up Group Policies

Life Assurance

- A plan can be established from 10 employees upwards.
- Underwriting information in the form of census data should include the employees' names (in Japanese), sex, age, date of birth and annual salary with fixed bonuses (if they are to also be insured).
- The premiums will be calculated according to age and sex but an overall rate will be applied to the insured salary (& bonus) base.
- Individual medical information is not required and the company will be asked to confirm that the employees to be insured are healthy.
- All insurers will need information on any current long term absent employee or any employee who is substantially ill. This information will impact on premiums and/or availability of cover. Pre-existing medical issues are excluded.
- Cover normally ceases at 60 years of age but sometimes insurers will agree to extend cover to 75 if required, but premiums may be higher and more onerous employer responsibilities may be incurred.
- Offshore policies are non-compliant and need to be placed with a licensed insurer in Japan.
- A set of Condolence Rules are required to be submitted and approved by the Life Insurer prior to cover commencing.
- Japan is a 'cash before cover' jurisdiction in respect of the inception of a Life policy. Renewals will sometimes allow for a 30-day credit period.
- A Japanese bank account is required, and premiums will need to be paid in JPY.
- Monthly declarations of 'joiners' and 'leavers' is required with monthly premium adjustments.

Group Long Term Disability (GLTD)

- A plan can be established from 5 employees upwards.
- It is easier to set up than Life Assurance as no Condolence Rules are required to be viewed and no monthly declarations for 'joiners' and 'leavers.'
- Cover will not apply to any employee not actively at work when the policy commences.
- Typical waiting period before insured benefits commence in Japan ranges between 12 and 72 weeks and the waiting period tends to 'dovetail' with the period of short-term disability coverage under the company's compulsory health insurance.
- Benefits normally range between 60% to 70% of monthly salary with a cap of JPY1m per month.
- Benefits can also be provided for a limited term period (i.e., 5 years) or up to the government retirement age.
- A Japanese bank account is required, and premiums will need to be paid in JPY.

Medical Insurance (Top Up)

- Subscription to the national health insurance is compulsory although companies have a choice of joining the Government Fund or an approved Industry Fund.
- Insurance agents and brokers are not allowed to get involved in the setting up or maintenance of the compulsory medical insurance fund.
- Typically, premiums will be based on factors including:
 - Claims history
 - Eligibility
 - Fund size
 - Employee age profile



- Additional insurances for in-patient and surgery benefits are available either as a 'standalone' policy or endorsed onto a Group Personal Accident policy.
- Minimum number of employees required for a Group Plan is 20 and upwards
- Monthly declarations of 'joiners' and 'leavers' is required with monthly premium adjustments.
- A Japanese bank account is required and premiums will need to be paid in JPY.

Pension

Superannuation/Pension

Regular company employees are classified as the TYPE 2 Insureds regarding the Japanese public pension insurance system. Employees without long tenures at big companies have also been included in the category.

The TYPE 2 Insureds shall be covered by the Employees' Pension Insurance plan (KOSEI NENKIN, in Japanese). The premiums are calculated simply based on the salary amount.

The enrollment procedures are settled by the employers. Half of the premiums are born by the employer and the other half, by the employee. The pension benefit amount from the Employees' Pension Insurance for the respective insureds varies, according to the premiums amount they have contributed. This variation is a major difference from the National Pension Insurance plan. In addition, the pension amount shall be larger than the basic pension amount paid from the National Pension insurance plan.

1. Old-Age Pension Benefit

Eligibility – Participants become eligible for the old-age pension benefit at age 65. The person has been contributing for at least 1 month and is qualified for benefits under the National Pension Scheme.

2. Disability Pension

Eligibility – If a participant becomes disabled due to sickness or injury, a disability benefit will be paid. Disability is categorized by three classes, depending on its seriousness. A

participant cannot receive the benefit, if he/she did not pay contributions for one-third or more of one's previous participation period.

Three classes of disability:

- Class 1: Total disability requiring constant attendance
- Class 2: Degree of disability restricting one's ability to live independently
- Class 3: Degree of disability restricting one's ability to work

3. Survivors' Pension

Eligibility – If a participant with an eligible dependent dies, a survivors' pension will be paid to the dependent. If a participant did not pay contributions for one-third or more of his or her previous participation period, the survivors' pension will not be paid.

Tax Treatment of Benefits

- The tax treatment in Japan varies from benefit to benefit. Some benefits like life assurance can be provided tax free and premiums do not incur a tax liability on the employee.
- Long term disability premiums do not incur a tax liability on the employee but typically benefits are paid as taxable income.
- Some contracts are also subject to a consumption tax of 10%.



On-Boarding and Policy Administration

On-Boarding

- In some countries, there is much more emphasis to the on-boarding process and the choices employees have to make. In Japan, there has historically been far less emphasis on this process because there are few choices in benefits and employees are automatically enrolled into policies.
- Communicating about the benefits that are being provided is therefore an important part of the process to ensure employees understand and value the benefits available to them. Increasing numbers of businesses are now investing in employee communication as part of their wider benefits strategy. Cornes can support this effort by creating and delivering multi-channel communications including employee presentations (in person to an employee gathering or virtually).

Policy Administration

As advisers, we can provide administrative support in the form of:

- Assisting enrollees with understanding the insured benefits.
- Monthly declarations to insurers of 'joiners' and 'leavers' and associated invoicing.
- Dealing with any queries raised.
- Claims support and analysis.

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