The Japan Medical Association Physicians’ Pension Program

JMAJ 50(4): 300–308, 2007

Satoshi IMAMURA*1

Introduction

The physicians’ pension program administered and operated by the Japan Medical Association is the only private pension program that is of physicians, by physicians, and for physicians. For close to 40 years since its inauguration in 1968, this program has undergone steady development and made a substantial contribution to the stability of the livelihoods of physicians in their old age and to the improvement of their welfare. As a result, it has grown into one of the leading private pension programs in Japan, with some 50,000 participants and managing assets of some 570 billion yen (4.7 billion USD) as of September 2006.

This paper seeks to outline the significance of the establishment of the JMA physicians’ pensions program, its distinguishing features, and its method of operation.

Necessity and Significance of Establishment

While emphasis may differ from country to country in public policy and institutions, what is common to all of them is that healthcare services are a component of the fundamental infrastructure of society and are essential for their citizens to lead healthy and rewarding lives.

Physicians are the core providers of healthcare services to citizens, and to assure the stability of their livelihoods, and especially so in their old age, is a policy representing an extremely important social value. That is, improving the welfare of physicians bears directly on improving the welfare of the entire citizenry. This is where a pension program that protects the livelihoods of physicians in their old age takes on great significance.

Even so, the institutional consideration given to physicians, who play the important social role of providing healthcare services, in the Japanese public and private pension programs system was by no means adequate until the establishment of the physicians’ pension program by the JMA.

Japan does, of course, have a public pension plan administered nationally as a first means to support all citizens in their old age. This came about in 1961 in the form of the national social security program, with both universal pension coverage and universal health insurance. The fact is, however, that it is difficult to reckon a public pension alone adequate to provide financial security in old age. To supplement it, therefore, mutual benefit annuities and corporate pensions, administered by companies for their employees, were established as welfare programs provided by companies, and their greater use was encouraged by policies of favorable treatment in the tax and legal systems.

Turning to the occupation of physicians, however, not only do these workers invest long periods in training and research, they also engage in diverse employment patterns, some employed on hospital staffs and some operating clinics in private practice, and quite often moving from one to another in the course of their careers. More than a few physicians were therefore unable to secure sufficient pensions for their future in this system of public pension and various private pensions, enrollments for which no institutional coverage could be maintained. Another major consideration was that reliance on self-provision at an individual level, in addition to the public

*1 Executive Board Member, Japan Medical Association, Tokyo, Japan (jmaintl@po.med.or.jp).
pension, suffered limitations from insufficient security and consistency.

In these circumstances, the need grew for a framework in which all physicians could jointly assist each other to secure reliable livelihoods for their old age and provide sufficient healthcare services to the citizenry. It was thus that the JMA, which is the basis of the physician community and the party responsible for the improvement of their welfare, came to design and administer the physicians’ pension program.

It was, however, by no means a simple matter to design a full-fledged pension program on a large scale as a private, voluntary welfare program, and the path to its launch was fraught with difficulty. A simple review of progress towards its inauguration would note that in 1961, when universal pension provision was achieved with the national public pension, a study commission was set up within the JMA to look at voluntary pension programs. This was reconstituted the following year as a preliminary committee for welfare programs, which then spent 7 years and considerable effort on first gaining a basic understanding of pension programs and then surveying and studying similar programs at home and abroad, drafting and revising proposals, negotiating with government agencies such as the Ministry of Finance and the Ministry of Health and Welfare, putting in place an administrative and operational system, and keeping the JMA membership informed, culminating in the inauguration of a voluntary funded pension program in October 1968. This provided physicians with a means of reliably securing financial resources for their old age without relying on the public pension alone by enrolling in a guaranteed and maintainable pension program that would not be affected by any changes in the course of their careers (Fig. 1).

As the environment in which the program operates has undergone major changes, such as aging of the population and in changes socio-economic structure, sustaining and developing the pension program, too, has entailed a number of revisions, including an expansion of the benefits and changes in the basic actuarial rate.

**Basic Thinking behind Design and Operation**

Appropriate design and disciplined operation and administration are important factors in a pension program. The physicians’ pension program, in particular, is a voluntary pension program not bound by law, unlike the public pension and corporate pensions, and thus requires all the more transparency and discipline in design and in operation and administration.

The basic elements of design and of operation and administration of the JMA physicians’ pension program are governed by the JMA Physicians’ Pension Regulations, which might be considered to be its basic law. The fundamental thinking behind the program is that it is designed so that the JMA gains no benefit whatsoever.
from its operation and administration of the program, and its administrative framework, from the receipt of contributions and disbursement of benefits to maintenance and investment of pension assets, is likewise constructed on the basis of this thinking.

First of all, physician pension contribution and pension resource accounts are handled entirely separately from the JMA’s general accounts and other finances. Contributions paid in by enrolled physicians go directly into a special account independent of the general account, and the operating assets are managed strictly separately from the small sum deducted for the administrative expenses towards the JMA’s management of the program.

Maintenance of the pension fund is delegated to appropriate third parties (trust companies and life insurers, for example). Pension resources cannot be invested for the benefit of the JMA itself, and it is stipulated that all proceeds and surplus arising from investments are retained in the pension fund and that none whatsoever shall attach materially to the JMA. Further, as long as the JMA performs its operational and administrative tasks appropriately and in accordance with the regulations, it is prohibited for the pension program to incur any other expenses or payment of compensation for any damage suffered by the pension fund.

In other words, other than the performance of appropriate administrative obligations, the pension fund and the JMA have no operational debtor-creditor relationship whatsoever in terms of financial flows.

Secondly, financial statements are prepared annually in accordance with pension accounting methods describing the financial condition of the pension fund and disclosed to contributors, benefit recipients, and other members of the JMA. The financial year runs from October to September, and the liability reserve, surplus accrued, and other sums and their disposition are determined in the closing of accounts at the end of September each year. Further, the pension program and its financial condition undergo inspection at least once every 5 years in order to assure the soundness and sustainability of the pension program and its appropriate administration, and if necessary, decisions are then made in accordance with the procedures stipulated in the regulations and with the agreement of the enrolled physicians on revision of benefit levels or such experience assumptions as the expected mortality rate and expected rate of return.

**Program Framework, Part 1: Contribution and benefit strengths**

This paper first considers the strengths of the physicians’ pension program in terms of the framework of its contributions and benefits.

Each contributor to the pension plan has a personal account; it is a funded pension program whose individual contributors receive post-retirement benefits based on the contributions...
each has paid in and the pension resources that have accumulated from investment income. Because the program is designed, operated, and administered by the JMA, a condition of enrollment in the program is that the enrolled individuals be members of the JMA. Although the enrollment rate at initiation was high, with a majority of members enrolling, this was followed by a relative fall in the enrollment rate as JMA membership underwent considerable growth due to the voluntary nature of enrollment in the program on the basis of the initiative of individual members. For reference, JMA membership currently numbers some 160,000 persons by the most recent count, but a large proportion of the membership is unenrolled, with a total of some 50,000 members making contributions to and receiving benefits from the physicians’ pension program. In this respect, the motives for launching the program would seem to call for further promotion of enrollment in it among the membership, and there is indeed much scope to do so.

Turning to the benefit, pension benefits paid comprise a basic portion and an additional portion. Because enrollment is uniform for all JMA members who enroll in the program, the basic pension consists of payment of a fixed-sum contribution (12,000 yen or 100 USD if the contribution is by monthly payment). For its part, the additional pension is positioned as a top-up to the basic pension: contributions towards it are voluntary, flexibly respondent to the circumstances of the enrolled physician in that there is no upper limit on the amount of this contribution and that the amount may also be raised or lowered while enrolled (Fig. 2).

In principle, pension benefits begin to be paid when the enrollee reaches 65 years of age. However, the program enjoys considerable flexibility with respect to when benefits are paid to enrollees; an enrollee qualified to vest may, for example, delay the initiation of benefit payments until the age of 75 upon request (Fig. 3).

Whereas the basic pension is a whole-life annuity with guaranteed installments, the additional portion is available to pensioners as a whole-life annuity and also as a certain annuity in disbursement periods of 5, 10, or 15 years, and the pensioner may choose whichever of these best suits his or her needs at the time that disbursement is initiated (Fig. 4). Moreover, if certain conditions are satisfied, the program allows for a survivor annuity should a pensioner pass away and also such plans as disability pensions and educational pensions for the education of children.

The rate of return on pension assets, one of the programmatic experience assumptions, is currently defined as 1.5%, and the amount of future pension benefits, whose underlying assets are the contributions, is calculated for payment on the basis of this rate of return. While this may

![Fig. 3 Start of benefit payment deferrable to age 75](image-url)
be considered a sort of guaranteed rate of return, it is not permanently fixed. Retrospectively, it was 5.5% for a long period after the 1968 launch, but due to the extensive deterioration of the investment environment since 1990 as seen in such factors as the long slump of the Japanese economy resulting from the collapse of the bubble, extraordinarily low interest rates resulting from the central bank’s zero-interest-rate policy and the downward spiral of the stock market, it is now 1.5% following two unavoidable cuts in 1998 and 2003, with the agreement of enrollees, made for the further maintenance and development of the program. Even so, the program operates with a rate of return that is considerably favorable relative to other similar products in a Japan that continues to suffer extraordinarily low interest rates that are unprecedented in world history and where banks offer deposit interest rates of less than 0.5%.

To review briefly the state of contributions and benefits, few have enrolled for the basic pension alone, and the average monthly contribution of enrollees is around 68,000 yen (560 USD). Of those already receiving benefits, some 90% receive the additional top-up to the basic pension, and the average monthly pension of last year’s new pensioners reached some 180,000 yen (1,500 USD).

If this physicians’ pension is added to the public pension benefit, which is currently 66,000 yen (550 USD) per person, a pensioner who qualifies for the full basic pension and enjoys income from savings and other financial assets built up while active in the workforce will have an income considerably higher than the average income across retired Japanese households as a whole, contributing significantly to the stable livelihoods and improved welfare of the physicians themselves in their old age, of course, and also to the stable provision of healthcare services to the citizenry. Incidentally, the cost of living required by a retired household of two persons aged 65 or older in Japan is considered to be about 250,000 yen (2,080 USD) monthly, according to the Japan Institute of Life Insurance.

Turning to the distribution of enrollees across age groups, enrollees in their 40s and 50s account for the bulk of all enrollees at just over 70%, and the young generation of enrollees in their 20s and 30s unfortunately make up only around 5%. Although interest in pensions and their retirement livelihoods in the distant future remains stubbornly low among the young generation and it tends to be difficult to enroll them in the program, we are aware of the need for more information and publicity among this generation of physicians.

Program Framework, Part 2: Investment and management strengths

The paper next turns to the approach to investment of the pension fund and its strengths.
A funded pension such as the JMA’s physicians’ pension program must pay out pension benefits in future with certainty, with its underlying assets as the contributions paid in to date. Pension resources should therefore be invested to continuously return earnings that are as high as possible. This does not, however, justify making investments that are too risky. It is necessary to consider an appropriate balance of investment risk and return, perform adequate risk management, and achieve efficient investment.

In concrete terms, this entails both ascertaining the structure of the liability side, including the liability reserve and income and expenditure flows into the future, and identifying the allowable risk and required return, as well as on the asset side analyzing the characteristics of stocks, bonds, and other domestic and overseas investment instruments to determine basic asset allocation and other aspects of the structure of investment considered to be optimal over the medium and long term. One then defines a basic investment policy, draws up guidelines, and conducts disciplined investment in accordance with these. Further, one continuously monitors risk and the status of investments for any changes in the environment of the pension program and, when necessary, examines revisions to improve the investment structure.

This describes the basic managerial and administrative processes in pension investment, and the physicians’ pension program makes and manages investments accordingly. In global financial markets that are growing more sophisticated and diverse, it is difficult for managers who are not necessarily investment experts to invest underlying pension assets smoothly and efficiently on their own. We therefore commission domestic and overseas investment institutions that are investment experts to make the actual investments as a way to pursue the investment results reckoned to be optimal for the pension program.

In order to achieve an investment structure considered to be optimal for the current physicians’ pension program, in 2005, we conducted a review of the investment structure with the support of a global pension consulting firm. We defined investment techniques and basic proportions allocated to domestic and overseas stocks and bonds on the basis of outstanding investment theory and pension investment decision-making processes recognized in the world of asset management and selected 10-plus investment firms considered, among many domestic and overseas investment institutions, to have the greatest investment capability to charge them with making investments in the fields and using the techniques in which each of them is most proficient. We have currently defined the target return on investment as being around 4%.

A significant advantage of the program’s investment is that it enhances the profitability of investments, compared with fund management performed by individuals to secure their retirement funds.

Since the program is administered by the JMA, which is a public-interest corporation and not a profit-seeking business of the JMA itself, the tax-exempt treatment of its reserves, interest income, stock dividends, capital gains, and all other investment income is accepted by the tax authorities.

Administrative expenses deducted from contributions in the physicians’ pension program are no more than 100 yen per contribution paid in, regardless of the size of that contribution, and no other management and administration costs are paid in the course of investing the funds.

Funds may be managed at extremely low cost, in terms of service charges paid to financial institutions and return rates when a giant investor such as the physicians’ pension program commissions investment with an investment institution, compared to when an individual manages the funds by purchasing shares or the financial products of, for example, an investment trust. Advantages of scale may also be exploited to enjoy portfolio management that benefits from the sophisticated and diverse investment techniques of the world’s leading investment institutions that it would be difficult for an individual to devise.

With regard to management of the actual status of investments, we receive investment performance reports from the investment institutions commissioned to make investments on a monthly basis, and the section of pension program of the JMA that oversees the pension program conducts hearings on investment particulars on a quarterly basis, as a rule of thumb, and reports on them to the executive for pensions. Moreover, the Pension Committee, which is the substantive decision-making body for the pension
program, and an expert committee composed of experts in the management and investment of pension assets suitably review the status of investments, analyze problems, and, if necessary, reconsider the investment institutions commissioned and examine such matters as expansion of investment instruments to improve the investment structure and investment outcomes of the pension program.

Custody of underlying pension assets is enjoined to an investment institution of extraordinary creditworthiness, and the greater part of the pension fund is segregated securely as trust assets in a framework in which the pension's underlying assets would not waste away if the investment institution were to collapse.

**JMA’s Administrative and Decision-Making Systems for Pension Plan**

This section describes the JMA’s responsible section that actually manages and administers the physicians’ pension program and the decision-making system (Fig. 5).

The supreme decision-making body of the JMA is the House of Delegates, and it receives reports on matters of importance regarding the pension program itself, such as amendment of the pension regulations. Dissolution of the pension program itself requires a resolution of the House of Delegates.

The ultimate decision-making body in routine operation of the pension program is stated in the regulations as being the Board of Trustees of the JMA and its president, and one executive board member is appointed to oversee administration of the pension program. The president disposes of matters of importance concerning the administration of the pension program (e.g., amendment of the pension regulations and financial statements) at the decision of the Board of Trustees, and the executive board member in charge directs and performs day-to-day administration of the pension program.

The Pension Committee has further been established as a special decision-making body for the pension program with the objective of guiding appropriate administration of the pen-
sion program. The role of this committee is to deliberate on matters of importance in administration of the pension program and report its findings to the president. It is stipulated that the president and the Board of Trustees will respect the determinations of the Pension Committee, and the actual power of decision in routine administration may be said to lie with the Pension Committee. As well as the JMA executive board member responsible for the pension and several academic experts, the committee additionally comprises a number of enrollee delegates, who make up about half of its members, so that the interests of its enrollees will be reflected in the administration of the pension program.

Assisting these decision-making bodies is an expert committee composed of experts with extensive experience in such fields as pension accounting, pension management, and pension program analysis. This committee studies questions in advance of their deliberation by the Pension Committee and also plays a substantive steering function regarding the direction of the administration of the pension program, analyzing sophisticated and specialized issues of finance and administration that the Pension Committee is unable to deliberate adequately and examining and drafting proposals on revisions to the pension program.

A dedicated managerial section has been established within the JMA secretariat to handle the day-to-day management and clerical duties associated with the pension program. This section is responsible for all office business concerning administration of the pension program, including matters concerning contributors and beneficiaries, enrollment promotion campaigns, management of the investment of pension assets, financial reports, and information disclosure. Specialized pension accounting, receipt of contributions from enrollees, disbursement of benefits to beneficiaries, and other such operations are performed by a trust bank designated as a book runner.

Conclusion

This paper has described in outline the physicians’ pension program in its entirety. In closing, we would like to revisit the significance and advantages of the pension program and touch briefly on some of the issues facing it.

As stated at the outset, this physicians’ pension program is the only voluntary pension program constructed on the platform of joint and mutual aid through a physicians’ group. Having the direct purpose of improving the welfare of physicians themselves and ensuring stability of their livelihoods in old age, it is of tremendous significance in thus achieving the stable provision of medical services and contributing to the improved welfare of the entire citizenry.

By enrolling in a sustainable pension program not affected by changes in their career paths, physicians are able to ensure themselves substantial retirement funds with reliability and thus derive significant advantage from the structure of this pension program. Contribution payment methods and benefit disbursement methods are designed to be flexible and may be arranged to meet the diverse needs of enrollees.

Because it is administered by the public-interest corporation JMA and is not a profit-seeking business of the JMA itself, the investment income the pension program generates is tax exempt, and it is able to enjoy the investment outcomes of top-rate domestic and overseas investment institutions at a cost much lower than individual investment would incur. Administrative expenses are also kept low.

In addition to being of great social significance and considerable merit, a pension program such as this one has a massive presence in terms of enrollee numbers and asset volume that compares favorably with the corporate pension programs of such leading Japanese companies as Toyota and Hitachi.

This means, to put it another way, that the physicians’ pension program is charged with an immense social responsibility. In carrying out this social responsibility, it is necessary to overcome issues in administration of the pension program and work to further improve the soundness and efficiency of the program.

For example, not only is enrollment in the program considered low, but it is necessary to improve the ongoing aging of enrollees and the beneficiary composition. We must conduct publicity and enrollment campaigns, promote enrollment among the younger generation and hospital-employed physicians in particular, and stabilize the program further.

Operationally, we must respond appropriately to financial markets of growing sophistication and diversity and enhance investment efficiency.
further. We are currently experiencing a temporary insufficiency of funds in the program due to such factors as the deterioration of the investment environment in Japan after the collapse of the bubble economy, and our goal is to eliminate this insufficiency.

We must also pay close attention to changes in government policy and the legal system that would affect the pension program and, as necessary, take steps to maintain and develop the program.

Our commitment to resolving these issues and to developing the physicians’ pension program far into the future also connects to fulfillment of the social responsibility of the JMA itself for the welfare of the physicians of Japan and the provision of medical services to the citizenry. We will be untiring in our efforts in the continued administration of this pension program.

Acknowledgements

The author appreciates the assistance provided by Mr. Tsunehiro Fukuhara, Manager, and Mr. Masao Ishio, Assistant Manager of the Department of Pension and Taxation of the Japan Medical Association in completing this paper.