Stephanie Ortbals-Tibbs: Japan is in the midst of an extraordinary debate over potentially sweeping changes to its retirement savings culture, changes which would include the adoption of funds as a retirement savings vehicle in a way not seen before and the further adoption of defined contribution plans. At the ICI Global Retirement Savings Summit in Tokyo, I spoke with a number of the experts about the key takeaways in the conference for asset managers, and I began by asking about a wish list of most important reforms for the Japanese system.

David Monroe: Well, I think first you want to really look at the reforms that are on the table, make sure that those get implemented. I think expanding the types of people, number of people who can participate in 401k is a great improvement. It’s a good reform. They ought to be supportive of that. And, in fact, we’ve been supporting that for years, asking for that. That’s excellent reform.

The next reform that I think is very good and we’re very supportive of is eliminating the requirement that you provide a principal protected fund. That’s typically
been either cash, or that principal protected fund has been the default option, and that’s not an appropriate default option. You don’t want people in that.

The third reform that I think is very good, and we’re supportive of, but we need details on is the government proposing some sort of more appropriate riskier or high return default product. That’s an appropriate product and appropriate move from sort of investment perspective, but what we found out from the experience in the U.S., if the employers are not given a safe harbor, they’re not going to offer that product. They’re going to offer a very safe and inappropriate default product. So we need details there. Myself, I hope that it’s fairly detailed and says at least that target date funds are an appropriate choice and gives the providers some protection, that if you give this option, people go into it, you’ve done what you need to do, you’re not at risk of getting sued or getting in regulatory problems. So I think those are some very important reforms.

**Doug Hymas:** And we would prefer that target date fund as a default option as well.

**David Monroe:** Yes.

**Doug Hymas:** And I would just add to what David said. We pushed long and hard for increased contribution limits. The tax agency seems reluctant to allow that, but at least they’ve expanded out. They’re going to expand out the coverage of DC [defined contribution], which will include another 60 million individuals here in Japan. That’s a significant number. Maybe the next step is then to push for increased contribution limits.
What Japan May Adopt from Other Retirement Savings Systems

David Monroe: Yeah, I think there’s a lot you can learn from behavioural finance and that you can then implement and get better outcomes. One of the things you can do is default people into matching. Now the system in Japan has the employer start out, and employer provides certain amount of contribution. And it can provide the maximum, and there’s nothing left for the employees to put in. But it can also provide less, and if it provides less, the employees can match that up to this aggregate limit. What you should have, if you want as much invested as possible, have as the default option that the employee matches. So that’s number one.

Number two is they’re starting to have some reforms and maybe allow employees to contribute beyond the employer, up to that aggregate maximum. You can also have an escalation option, so that whatever they put at the beginning escalates, and it increases over time, or perhaps that they give the maximum as a default option. But, anyway, thinking about what the default options should be on that, that will get a better outcome. More money will be invested. People have a better financial situation when they retire.

Doug Hymas: And I would just add that escalation option, if we could make that automatic. Auto-escalation I think is something that Japan could introduce here. There’s a rumour that the regulators have already discovered that option and may be considering it. We’d like to push for it.
How Japan Could Improve Portability of Retirement Savings Accounts

Doug Hymas: Yeah, the model that they’re using for portability and for continuity is the woman who comes into the workplace, the typical what they call “office lady” here in Japan, who was in the workforce for a few years, then marries, decides to quit work to raise a family and then comes back into the workforce after her children are in high school or college. Right now, the system doesn’t allow continuity of those assets in the same program. She has to sell out. It’s hard for her to bring those assets back in to maintain the tax preference treatment. So the idea is they need better portability, and by introducing what we like to call the “My DC Account,” if they incorporate better portability features, then they can resolve that issue. And I think that will continue to bring more people into the plan and then benefit many more Japanese individuals and workers and individuals generally.