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Retirement Saving in Japan: With Emphasis on the Impact of Social Security and Retirement Payments[1]

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In this paper, we apply Kazuo Sato's target wealth hypothesis to saving for life after retirement and analyze the impact of social security wealth, retirement payments, permanent income, and other factors on people's retirement saving using micro data from the Survey of Social Security and Self Help, which was conducted in 1996 by the Japan Institute of Life Insurance. Our findings provide strong confirmation of the target wealth hypothesis and of the life cycle model and imply that the Japanese take account of their future social security benefits and retirement payments, their permanent income, etc., when saving for life after retirement. *J. Japan. Int. Econ.*, June 2001, **15**(2), pp. 131–159. Graduate School

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1. INTRODUCTION

Nowadays, retirement security system programs such as social security and employer-provided pensions and lump-sum retirement payments play an important role in providing old-age security in Japan. However, these programs are expected to undergo dramatic change in the coming years. For example, the rapid aging of the population will put severe strains on the public pension system. Moreover, 401(k)-type defined contribution company pension programs will be introduced beginning in 2001 and are expected to partially or largely displace current defined benefit pension and lump-sum retirement payment programs. Under such circumstances, we urgently need to improve our understanding of retirement saving and of the impact of social security and employer-provided pensions and lump-sum retirement payments on retirement saving.

In this paper, we apply Kazuo Sato's (1995) target wealth hypothesis to saving for life after retirement and analyze the impact of social security wealth, retirement payments, permanent income, and other factors on people's retirement saving using micro data from the 1996 Survey of Social Security and Self Help (Kouteki-Hoshou to Jijo-Doryoku ni kansuru Ishiki-Chousa), which were provided by the Japan Institute of Life Insurance (JILI) and the Information Center for Social Science Research on Japan, Institute of Social Science, University of Tokyo (SSJ Data Archive).

According to the life cycle hypothesis of Modigliani and Brumberg (1954), as extended by Feldstein (1974), people save for life after retirement, taking account of their own expectations concerning their living expenses after retirement, social security benefits, retirement payments, etc. In Japan, a large number of detailed studies have been conducted on the relationship between social security and saving since the 1980s (Tachibanaki and Sasaki, 1985; Homma *et al*., 1987; Dekle, 1990; etc.). For example, Dekle analyzed the impact of social security on household saving using micro data from the 1983 Survey on the Living Behavior of the Aged (Roujin Ishiki Chousa). He finds that the Japanese elderly are not dissaving and that social security does not appear to displace private tangible wealth in Japan. One of the most careful of these studies is Takayama *et al*.'s (1990b), which uses micro data from the National Survey of Family Income and Expenditure (Zenkoku Shouhi Jittai Chousa), conducted by the Management and Coordination Agency of the Government of Japan. There is no information on the amount of future social security benefits in this survey, but the authors estimate the amount thereof and