For Global HR & Finance

Understanding Japan's Retirement Benefit Plans

Essential basics: compliance, plan design, and accounting under global standards.

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Overview

Japan has no legal requirement for retirement benefits, yet most companies adopt one or more plans: **lump-sum, DB/DC pensions, SME mutual aid, and prepaid options**.

Lump-Sum Retirement Allowance

A one-time payment provided by employers upon retirement, based on years of service, salary, and grade-based points. It is a traditional benefit in Japan, separate from pension plans.

Defined Benefit (DB) Pension

Predetermined benefits based on years of service and plan rules. Employers are responsible for funding and investment through external arrangements and must comply with Japanese pension regulations.

Defined Contribution (DC) Pension

Employers make predetermined contributions, and employees manage investments. Funds cannot be withdrawn until age 60, and benefits depend on investment performance.

SME Retirement Mutual Aid

A government-backed program for small and medium-sized enterprises to provide lump-sum retirement benefits. Simple enrollment and tax advantages make it an accessible option for SMEs.

Prepaid Retirement Allowance

Employers pay a portion of retirement benefits during employment instead of at retirement. This approach reduces future liabilities and provides employees with earlier access to funds.

Mandatory or Optional?

Retirement benefits are not legally required in Japan, but they remain a strong business norm. Many employers offer severance, a pension plan, or even both to meet long-standing expectations.

Is a Liability Calculation Required?

Both Lump-Sum Retirement Allowance Plans and Defined Benefit (DB) Pension Plans are defined benefit plans. Companies must calculate and recognize these obligations under IFRS and US GAAP.

Your Partner for Retirement Solutions

Ready to Navigate Japan’s Retirement Benefit Landscape?

Partner with experts to ensure compliance and optimize your retirement benefit strategy.

Contact us