

Outline of the 2012 NPA Remuneration Recommendation

Main points of this year's Remuneration Recommendation

No Revision of Monthly Wage and Bonuses

1. The Act Concerning the Revisions and the Temporary Special Provisions of the Remuneration of National Public Employees (hereinafter "the Special Provisions Act") implements measures to reduce remuneration of national public employees from the amount provided in the Remuneration Act.

Thus, the differential of monthly wages between the public and private sectors was calculated both on the original (i.e. amount provided in the Remuneration Act) and on the reduced (i.e. taking the Special Provisions Act into consideration) monthly wage.

Despite the differential (-0.07%) between remuneration in the private sector and the original remuneration in the public sector, monthly wage shall not be revised for the following reasons:

- Conventionally, the National Personnel Authority (hereinafter "the NPA") has not revised monthly wage when the differential is insignificant enough that an appropriate revision of remuneration, including salary schedules, would be difficult to implement.
 - Reduced remuneration in the public sector is lower than remuneration of the private sector by 7.67%. This reduction has been implemented as a temporary special measure until the end of fiscal year 2013 to cope with the unprecedented disaster (the Great East Japan Earthquake), apart from the revision to match the remuneration level in the private sector.
2. End-of-Term Allowance and Diligence Allowance (Bonuses) paid in the public sector are equivalent to the ones in the private sector, hence no revision will be made:
 - Taking into account the fact that bonuses have also been reduced in payment

based on the Special Provisions Act.

Revision of Step/Grade Increase System to control the pay increase of officials in their late 50s

- 1. Suspension of step increase for employees over the age of 55 whose category of work performance is determined as “average”. (Revision of the Remuneration Act)**
- 2. Reducing the increase in monthly salary for employees whose steps prior to the grade increase were high. (Revision of the NPA Rule)**

I. Basic Concepts of the Remuneration Recommendation

- The Remuneration of national public employees may at any time be changed by the Diet to better meet the general conditions of society. It is the duty of the NPA to report and recommend such changes as needed.
- The NPA Remuneration Recommendation functions to ensure appropriate remuneration for national public employees as a compensatory measure for restrictions placed on basic labor rights. It provides the basis upon which an efficient administration is maintained.
- Since the public sector is exempt from any restriction on determining remuneration, namely the deterrent mechanism of the market, the most rational standard remuneration level is one that is equivalent with the level of the private sector, determined by industrial negotiations etc., reflecting factors such as economic and employment circumstances, etc.

II. The Remuneration Revision Based on the Public-Private Remuneration Differential

An interview survey of approximately 470,000 individual remunerations in about 11,100 private offices was conducted. (Survey completion rate: 90.6%)

<Monthly Wages>

The NPA surveyed actual remuneration paid in April 2012 within the national public and

private sectors, and compared groups of data that demonstrate equivalent major remuneration-determining factors: position, working area, educational background and age. The survey also reflected the conditions of private corporations that cancelled regular base pay increases, cut wages, or took any similar actions.

With consideration to the measures of reduced payments of remuneration to national public employees that have been taken based on the Special Provisions Act, the differential of monthly wages between the public and private sectors was calculated both on the original and on the reduced monthly wage.

○ **Public-Private Differential on Monthly Wage:**

(Before the application of payment reduction)	-273 yen, -0.07%
(After the application of payment reduction)	28,610 yen, 7.67%

The average age of public employees in the Administrative Service (I) Salary Schedule is 42.8, and their average remuneration is 401,789 yen (before the reduction) and 372,906 yen (after the reduction), respectively.

- Taking into account the following points, the monthly wage shall not be revised.
- Conventionally, the NPA has not revised the monthly wage when the differential between the public and private sectors is insignificant enough that an appropriate revision of salary schedules or allowances would be difficult to implement.
 - As a result of the measures of reduced payments of remuneration, reduced remuneration in the public sector is lower than remuneration of the private sector by 7.67%. This reduction has been implemented as a temporary special measure until the end of the next fiscal year to cope with the unprecedented disaster (the Great East Japan Earthquake), apart from the revision to match the remuneration

level in the private sector.

<Bonuses>

Payment rates (the number of months of monthly wages comprising a bonus) in the private sector from August 2011 through July 2012 are aggregated, and then compared with the payment rate of the last 12 months in the public sector.

- End-of-Term Allowance and Diligence Allowance in the public sector (3.95 months in total) are equivalent to the ones paid in the private sector (3.94 months) and thus shall not be revised.
 - Conventionally, revisions of bonuses have been implemented by a unit of 0.05 months.
 - Taking into account the fact that bonuses have also been reduced in payment based on the Special Provisions Act.

III. The Revision of the Remuneration System, etc.

- **Revision for Step and Grade Increase System (beginning January 1, 2013)**
 - Remuneration of national public employees in their late 50s will remain significantly higher than their private counterparts, even after the abolition of the transitional measure for the Remuneration Structure Reform. With the aim to appropriately adjust the distribution of remuneration among generations, the step and grade increase system shall be revised. This revision will help to further control the wage increases for employees in their late 50s.
 - The step increase system shall be revised through the amendment of the Remuneration Act. Through this amendment, employees over the age of 55 (57 for those on Administrative Service (II) and Medical Service (I) Salary Schedules) will not be allowed any step increase if the category of their work performance is

determined as “average” (the current system allows a 2 steps increase). In addition, the increase will be limited to 1 step for employees categorized as “good” and 2 steps or above for those categorized as “very good” (the current system provides a 3 steps and 4 or more steps increase, respectively).

- The NPA shall revise the NPA Rule for changing the grade increase system. The revision intends to reduce the increase in monthly salary of employees whose steps prior to the grade increase were high, including the highest step of the grade.
- Bearing in mind that remuneration of public employees in their late 50s still exceeds their private sector counterparts, the NPA will continue monitoring the trends in wages in the private sector, and will work on necessary measures, for example, as part of the annual remuneration revision, if necessary.

○ **Measures with regard to the Abolition of Payment as a Transitional Measure for Remuneration Structure Reform**

- The Special Provisions Act stipulates the recuperation of step increases, which have been restrained during the Remuneration Structure Reform and by using the resource generated by the abolition of such measures. The recuperation on 1 April 2013 shall be addressed to employees between the age of 31 and 38, and they will be awarded a maximum of 1 additional step increase, depending on the number of times their step increase has been restrained.

○ **Assessment of Regional Redistribution of Remuneration**

- The NPA has compared public and private remunerations in different regions to assess the impact of the regional redistribution of remuneration in 2006. The gap between the national level differential and the largest regional differential (namely the Hokkaido-Tohoku region) has diminished to between 2 and 2.5 points until this

year. Considering that regional differentials have narrowed and have become stable while remuneration of national public employees working in regional offices includes supplemental compensation, such as the transitional treatment for transfers, the NPA acknowledges that the adjustment of distribution has successfully achieved its initial objective.

- The NPA will keep monitoring the regional trends in wages in the public and private sectors, with the intention to ensure an appropriate distribution of remuneration regionally.

○ **Responding to the Changes in the Industrial and Organizational Structures**

- The NPA will research the situation of white-collar employees and engineers in industries that are currently not covered in the Survey of Remuneration in the Private Sector. Based on the results, the NPA will include additional industries that match the criteria from FY 2013 in the survey, to the extent that the high credibility of the survey is maintained.
- Some recent trends in the private sector, such as enterprises shifting to a flatter structure, shall also be considered. The NPA will examine measures to cope with these trends, including the widening of the range of positions covered in the survey and the revision of correspondence of positions between the public and private sectors at the time of remuneration comparisons, etc. Taking into consideration the opinions of experts etc., the NPA aims to bring in such measures next fiscal year.