

(August 10, 2010)

Outline of the 2010 NPA Remuneration Recommendation

- **Points of this year's Remuneration Recommendation:**
Both monthly salaries and bonuses shall be reduced.
~ Average annual remuneration shall be reduced by 94,000 yen (1.5%).
(Principally, monthly salaries for employees in their late fifties shall be reduced.)
- ① **Monthly remuneration shall be reduced in order to eliminate the negative public-private differential (the public sector remuneration exceeds that of the private sector by 0.19%).**
— There will be a reduction of salary and managerial allowance by a fixed rate for employees older than 55 years of age, and reduction of salary schedules.
- ② **The End-of term and Diligence Allowances ("bonus") shall be reduced by 0.2 months of salary.**

I. Basic Concept of the Remuneration Recommendation

- The NPA Remuneration Recommendation functions to ensure appropriate remuneration for national public employees as a compensatory measure for restrictions of fundamental labor rights. It provides the basis for maintaining efficient administration.
- Since it is difficult to determine national public employee remuneration levels by market mechanisms, the most reasonable method of determining them in Recommendation is to follow the private sector's remuneration rates, which are determined by labor-management negotiations and reflect the current economic and employment situation.

II. Remuneration Revision based on the Public-Private Remuneration Differential

1. Public-Private Remuneration Comparison

A field survey was conducted on approximately 450,000 individual remunerations of about 11,000 private enterprise establishments. (Survey completion rate: 89.7%)

<Monthly Remuneration>

The NPA surveyed actual remuneration paid for April 2010 in the national public and the private sectors, and compared the equivalent groups of data that hold the same major remuneration-determining factors such as post level, age, educational background, and area of service. The survey also reflects the conditions of private corporations which cancelled regular base pay increases, cut wages, and so forth.

○ **Public-Private Differential:** -757 yen -0.19%

[Administrative Service Salary Schedule (I) current remuneration: 395,666 yen, average age:

41.9]

(Salary –637 yen, Managerial Allowance –51 yen, Rebound** –69 yen)

** “Rebound” means the change in the amount of allowances caused by the revision of basic salaries, given that certain allowances, like the Area Allowance, are calculated as a certain proportion of the basic salary.

<Bonus>

The annual bonus payments from August 2009 through July 2010 in the private sector were compared with the public sector annual bonus.

○**Private sector payment:** 3.97 months of salary

(Public sector payment: 4.15 months of salary)

2. Contents and Concept of Remuneration Revision

<Monthly Remuneration>

In order to eliminate the public-private differential, monthly remuneration shall be reduced. There shall be both a revision of salary schedules and an adjustment of the remuneration levels of employees in their late fifties.

(1) Salary and managerial allowance for employees older than 55 years of age (excluding employees whose grades of duty are 5th grade or below of Administrative Service (I) Salary Schedule or equivalent) shall be reduced by a fixed rate (–1.5%).

※ Does not apply to Medical Service (I) Salary Schedule (in order to secure human resources), Designated Service Salary Schedule (because monthly salary is designated corresponding to each position), etc.

(2) In addition, salary schedules for middle-aged and older employees shall be reduced.

① Administrative (I) Salary Schedule:

Shall be reduced in order to eliminate the public-private differential that is existent even after the measures in (1) are taken (average: –0.1%). The reduction shall be limited to monthly salary for employees in their forties or older.

② Designated Service Salary Schedule:

Shall be reduced by the rate of Public-Private Differential in Administrative (I) Salary Schedule (rate of change: –0.2%).

③ Other Salary Schedules:

Shall be reduced considering balance with the Administrative (I) Salary Schedule (excluding the Medical Service (I) Salary Schedule, etc.).

※ The amount paid as transitional measures following the reduction of salary standards based on the Reform of the Remuneration Structure shall also be reduced considering

this year's rate of change in salary schedules, etc.

※ Shall separately recommend the establishment of new grades in the Specialized Staff Salary Schedule, along with the government's progression toward the preparation of new positions.

(3) Allowance for committee members, special advisors, senior advisors, etc.

The maximum payment shall be reduced based on the revised situation of the Designated Service Salary Schedule, etc., from 35,200 yen to 35,100 yen.

<End-of-term and Diligence Allowances (Bonuses)>

Bonus payments shall be reduced to the equivalent of the private sector payment rate: from 4.15 to 3.95 months of salary.

(Bonus payments in equivalent-months-of-salary for general employees)

| | June Term | December Term |
|----------------------------|-------------|----------------------|
| Current Fiscal Year (2010) | | |
| End-of-Term Allowance | 1.25 (Paid) | 1.35 (Currently 1.5) |
| Diligence Allowance | 0.7 (Paid) | 0.65 (Currently 0.7) |
| Fiscal Year 2011 onward | | |
| End-of-Term Allowance | 1.225 | 1.375 |
| Diligence Allowance | 0.675 | 0.675 |

[Timing of Implementation and other matters]

The above mentioned revisions shall take effect on the first day of the following month when the revised Remuneration Law is published (in cases where the Law is published on the first day of the month, the same day is the day it takes effect).

To eliminate the public-private differential during the period from this April to the day before the revised Law takes effect, the payment of the End-of-term Allowance in December shall be adjusted accordingly.

<Overtime Allowance>

Based on situations in the private sector, work on Sundays and equivalent days shall be included when calculating if employees are ordered to do overtime work over 60 hours per month. This provision shall take effect from Fiscal Year 2011.

III. Reform of Remuneration Structure

- The introduction and implementation of policies which were planned in the original reform program of the remuneration structure will be completed this fiscal year. The NPA will continue to undertake necessary reviews concerning the revision of the distribution of remuneration among areas, reflection of performance in remuneration, etc.
- Utilizing the margin which is produced in the process of the gradual abolishment of

transitional measures by April 2011, pay step increases for young and deputy-director level employees (employees younger than 43 years of age) which had been reduced shall be recovered by one step.

- In light of the remuneration differential between the public and the private sectors in different areas, the distribution of remuneration among areas has been improved compared to the situation before the reform (maximum gap of 4.8 to 2.6 in 2009, and 2.0 in 2010). The NPA will undertake final reviews on the revision of the distribution of remuneration among areas based on the situations of amount paid as transitional measures, payment of special treatments for transferred employees concerning Area Allowance and salaries in the private sector in each area, on the premise of watching trends over several years.
- In the course of discussion on extension of fixed retirement age, the NPA will consider undertaking necessary reviews concerning the remuneration of employees in their fifties.

IV. Employment Issue of those of Higher Ages ~ Toward the realization of compulsory retirement at the age of 65 ~

1. Basic Direction for Employment of Elderly Employees in Public Service

Given that Japan has become an aged society, it is appropriate to gradually raise the compulsory retirement age to 65 starting from fiscal year 2013 in line with the increase of the age at which pension payments begin, based on the intension of Basic Act for National Civil Service Reform.

- In the private sector, it is prescribed by law that measures must be taken to secure employment for workers until the age of 65. Many employees who reach the fixed retirement age of 60 continue to be in employment, and especially those who are in non-managerial positions engage in the same kind of duties.
- Basically, remuneration of employees in their early sixties as well as that of other employees shall be determined on the basis of their duties and responsibilities of their positions. However, in raising fixed retirement age, although their duties and responsibilities shall be taken into consideration, remuneration standards of employees in their sixties shall be reduced substantially even if they engage in the same kind of duties as they did before reaching 60, based on the situations of employment and income in private enterprises. At the same time, measures to utilize human resources better, such as removing employees at high rank managerial posts from such posts at a certain age before compulsory retirement and enabling employees to choose flexible work styles such as decreased work hours shall be examined.
- It will be possible to keep payroll increases under control with the retirement age

remaining fixed at 65 if there is no increase in headcount and organizational structures remain the same.

- It is essential to review the whole scheme of personnel administration of the Civil Service from recruitment to retirement in the course of the gradual extension of the fixed retirement age. It is also necessary for the entire government to consider measures to support employees who retire early and interim measures concerning headcount management.

2. Framework of System Review toward the Extension of the Fixed Retirement Age

(1) Extension of the Fixed Retirement Age and Diversification of Work Style for Employees in their Sixties

- Starting from fiscal year 2013, the fixed retirement age shall be raised by a year every three years.
- A system shall be introduced to inquire employees about the work styles they prefer for when they are older.
- A system shall be introduced to remove employees at certain managerial posts from such posts at a certain age before compulsory retirement.
- A system to decrease work hours before compulsory retirement shall be introduced; and opportunities for personnel exchange shall be expanded.

(2) Review of Remuneration Schemes following the Extension of the Fixed Retirement Age

Given that salaries for employees in their sixties in the private sector who are continuously employed are approximately 30% lower than salaries for those younger than 60, remuneration standards for employees in their early sixties shall be reduced substantially, albeit in consideration of their duties and responsibilities. The NPA will consider undertaking necessary reviews concerning the remuneration of employees in their fifties as well.

(3) Other Relevant Measures

The NPA will consider the treatment of duties that are difficult for the elderly to perform, the compulsory retirement age for exceptional cases, etc.

Based on the above framework, the NPA will conduct a further review, and through an exchange of opinions with various parties concerned, come up with a definite plan by the end of this year and express opinions for concrete legislation.