

# Governance Issues in Public Pension System in Japan

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## Abstract

The proper governance structure in the public pension system in Japan has not been installed. It does not work optimally because it is not designed according to the appropriate incentive structure. Furthermore, third party monitoring mechanism without incentive is also quite unlikely to work as opposed to the government's expectation. That is the root of the problems in public pension management. This problem may have risen because the policy makers did not understand the agency theory; the optimal governance structure is to give a control right to the stakeholder group that is also the residual claimant. In order to solve these problems under the 2004 pension reform regime, the plan participants, taxpayers, the government, and the Social Insurance Agency should discuss how the participants delegate the control right to the Agency, how the government intervenes when the pension fund makes losses, and how the government can obtain consent from the taxpayers when it intervene.

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