Defined Benefit Pension Plan (1): Lump Sum Election

1. About the Lump-sum Election

(1) Old Age Benefits

The Defined Benefit Pension Plans are required to provide "Old Age Benefits" and "Withdrawal Lump Sum" (Article 29-1, DB Law), and the old age benefits must be provided in a form of annuity (Article 38-1, DB Law). By setting forth regulations on the election of lump sum payment, however, the whole or part of the old age benefits can be converted to and payable as a one-time lump sum. (Article 38-2, DB Law)

(2) Optional Lump Sum (Lump Sum Payment of Old Age Benefits)

When offering a one-time lump sum option for the old age benefits, the following requirements must be met (Article 29, Enforcement Ordinance);

a. Annuity option has a guaranteed period

b. Lump-sum shall be elected at a participant's discretion

c. Lump-sum option shall be given at the time of request for old age benefits or after 5 years from the start of old age benefit payment. However, if there is a significant damage to a home by natural disaster etc. or if a payment of loans becomes difficult, or in case of disability or long term hospitalization, or for reasons similar to these, the beneficiary can receive lump sum before 5 years from the beginning of old age benefit payment.

The lump sum shall not exceed the present value of annuity for the guaranteed period if the whole of old age benefits is to be paid as annuity (Article 23-1-1, Enforcement Ordinance).

(3) Withdrawal Lump Sum

When the participants who meet the eligibility requirements for benefits other than the old age benefits* receive lump-sum payment, such payment is called not Optional Lump Sum but Withdrawal Lump Sum (Article 41-2-2, DB Law). Similar to the Optional Lump Sum, the Withdrawal Lump Sum shall require specific wording in the regulation and must be capped at the present value of annuity for the guaranteed period (Article 23-1-2, Enforcement Ordinance). Also in addition, the regulation on early payment of the withdrawal lump sum must be spelled out (Article 27-1, Enforcement Ordinance).

2. Ceiling on Optional (Withdrawal) Lump Sum

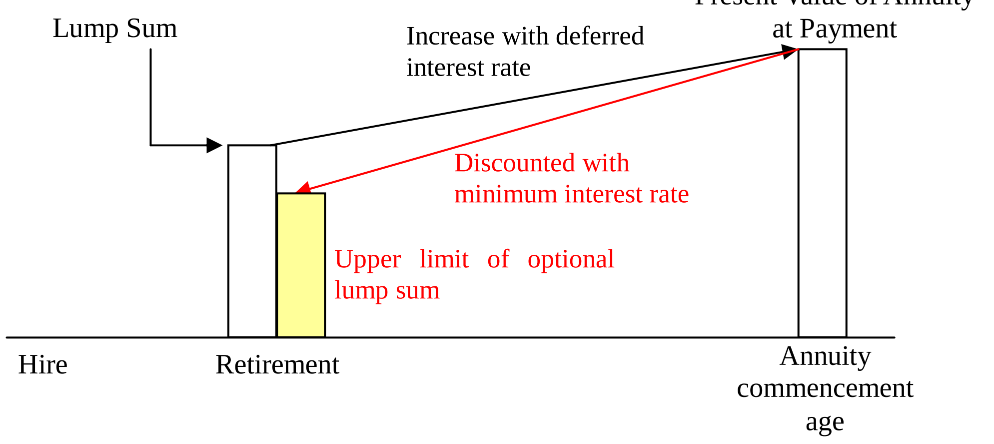
As aforementioned, the optional lump sum is capped at the present value of annuity for the guaranteed period and the interest rate to be used for the calculation of the present value of annuity shall be the lowest rate of minimum interest rates applied after the previous recalculation of plan finance. (Article 24-1, Enforcement Regulations).

*In such cases where a plan pays annuity at age 60 for those who have more than 20 years of service, and the retiree is age 45, for instance, with over 20 years of service at retirement.

The higher the interest rate is, the smaller the present value of annuity becomes. Therefore if the minimum interest rate is smaller than the annuity conversion rate (meaning the interest rate that makes lump sum and annuity equal), the optional lump sum with minimum interest rate becomes smaller than the original lump sum. And thus in the plans where lump sum is converted to annuity, the annuity conversion rate needs be modified to be bigger than the minimum interest rate.

Similarly, the differed annuity rate** also must be modified to be larger than the minimum interest rate.

If Deferred Annuity Rate < Minimum Interest Rate



[Plan Finance]

- Revaluation (drastic change in the No. of participants, benefits amendment, shortening of amortization period of PSL etc.)
- Establishment
- Integration, Separation, Acquisition, Transfer from DB plan
- Transfer from EPF

[Minimum Interest Rate]

- The lower of the average return on 10 year government bonds over the past 1 year or over the past 5 years to be applied from the following April.

(written by Hideki Kuroda, Chief Pension Actuary)

**Interest to be added from retirement to annuity commencement