In Japan, as in the United States, the aging of the population is challenging public and private health and retirement benefit systems and family support systems for the elderly. However, in Japan the population is aging more rapidly than in any other country.

Japan Copes with Its “Honorable Elders”: Retirement and Health Benefit Systems in Japan

Japan’s rapidly aging population has become a top policy issue to which its prime ministers regularly refer, especially as pensions and medical care are debated. With the world’s longest life expectancy, the Japanese potentially face extended periods of retirement and the possibility of lengthy periods of disability. Although family support of the elderly is thought to have been strong traditionally, the coresidence of parents and their adult children is declining. The Japanese government is particularly concerned about this issue and hopes to avoid taking any greater responsibility for the elderly than is necessary, given the dramatic population aging yet to come.

The government is encouraging employers to provide more employment opportunities for the elderly, but some firms have resisted because wages and private retirement allowances in Japan increase with the duration of employment. To control the cost of public pensions, the government’s 1986 pension reform reduced benefits for future retirees, but attempts to raise the eligibility age have thus far been unsuccessful.

The national health insurance system now covers 99 percent of all Japanese, with private corporations making partial premium payments on behalf of about one-half of the population. In 1973, the insurance system was revised to provide free medical care for those aged 70 and older, and health costs increased sharply. Subsequent reforms in 1983 instituted nominal fees for the elderly, but costs continued to grow faster than national income. The 70-and-older population now accounts for almost one-third of health costs.

Japan, just as the United States, must balance the interests of government, employers, and individuals and their families as it faces the new challenge of an older population.
Introduction

Between the mid-1980s and the year 2025, Japan’s population will age dramatically. The proportion of people aged 65 and older will increase from one-tenth to almost one-fourth of the total population. This profound age shift is challenging the public health insurance and pension systems. At the same time, with increasing numbers of women working, the Japanese practice of caring for the elderly within the family has weakened.

Aging has captured the attention of Japanese policymakers.1 During the past few years, Japan has made major reforms in its retirement, pension, and health care systems, adopting new policies to broaden coverage while controlling costs. In January 1988, Prime Minister Noboru Takesita stressed the need for further review of the national health insurance system and pension schemes and for improved nursing homes for the aged. He also used the aging issue as a rationale for his party’s recently enacted tax reform, which lowered income taxes but instituted a consumption tax that had the effect of shifting more of the costs of government programs to the elderly.

Japan’s policymakers have been troubled by the prospect of playing an ever-growing role in the care of the elderly. The pension, medical insurance, and tax reforms all were designed to deflect some of this pressure away from the government to the individual and the family. However, as has happened in the United States, the increased participation of middle-aged women (the traditional caregivers) in the labor force makes it likely that the family role will continue to shrink.

The 1972 best-selling Japanese novel, Kookotsu no Hito (A Man in Ecstasy, Ariyoshi, 1984), which portrayed the strains a family undergoes in coping with an increasingly senile patriarch, raised public consciousness about the darker implications of aging. The widely reported suicides of three elderly people last year on Respect for the Aged Day (a national holiday) seemed to underscore questions about the quality of life during these extended years.

Japan is certainly not alone in facing these issues. The U.S. media have widely reported on the implications of the “graying of America,” and all developed countries are undergoing similar population changes. In this situation, nations can learn from each other. Despite cultural differences, the United States can profit from Japan’s experience, since that country’s population will age much more dramatically in the coming decades than that of the United States. For its part, Japan is looking to the West for ideas as it attempts to provide for the elderly even as it struggles to control costs.

This Issue Brief first describes the larger context in which Japan is addressing the issues of aging and then examines the Japanese retirement, pension, and health insurance systems.

Japan’s Changing Population Patterns

Although Japan began its demographic transition to low fertility and mortality much later than other developed countries, by the 1960s it had caught up. Lower-than-replacement-level birth rates2 and the longest life expectancy on earth (largely unmitigated by immigration) are bringing about the extremely rapid aging of the Japanese population. Although the current proportion of the population aged 65 and older—10.3 percent in 1985—is smaller than that of many other more developed countries, such as the United States (11.7 percent) and Sweden (17.0 percent), by the year 2025 Japan is expected to have one of the world's most

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1Japan in the Year 2000, the 1982 report of the top-level Long-Term Outlook Committee of the Economic Council of the Economic Planning Agency, cited aging as one of the three major challenges for 21st century Japan (Japan Economic Planning Agency, 1982).

2Replacement-level fertility refers to the level of fertility at which a couple reproduces itself. Allowing for mortality up to the end of the reproductive period of women, replacement-level fertility in the United States today is 2.1 children per woman.
elderly populations, with 23.4 percent of its citizens aged 65 and older (chart 1). In absolute numbers, Japan’s elderly population is expected to increase from 12.5 million to 31.5 million between 1985 and the year 2025 (Japan Institute of Population Problems, 1988).

With advances in public health and medical care, Japan has brought under control the infectious diseases that kill relatively quickly and in former times were the top causes of death. Currently, the main causes of death are the chronic degenerative diseases—cancer, heart disease, and cerebrovascular disease—which may involve long periods of incapacity before death. There is great debate about whether greater quantity, or length of life, has been attained at the cost of lower quality of life.

**Family Situation of the Elderly**

The aging of the Japanese population is occurring at a time when the family structure is also changing.

**Marriage and Widowhood**

As in other developed countries, there are more elderly women than elderly men in Japan—69 men for every 100 women over age 65 in 1985—due to the longer survival of women. The majority of Japanese females over age 65 (59 percent) are widows, whereas the majority of males (82 percent) are married. In addition to sex differences in mortality, there are other reasons for this discrepancy. During the period from 1930 to 1950, when most of today’s elderly first wed, the average age at first marriage was three to fours years higher for men than for women. Also, men are more likely to remarry than women; the Japanese have some sentiment that a widow should remain loyal to her deceased husband (Smith, 1983).

Given the strong marital division of labor by gender—which, in theory, gives Japanese wives control over all aspects of the household, including finances, while husbands deal with the outside world—the extended period of retirement has placed considerable strain on
Living with One’s Children

In the ideal Japanese family structure, the eldest son upon marriage brings his wife into his parents’ home, where they all live until the parents’ deaths, and he inherits their assets. To a considerable extent, this pattern of postnuptial coresidence still prevails, but it has weakened in recent years. Of eldest sons who married from 1960 to 1964, 58 percent lived with their parents after marriage, whereas among eldest sons who married from 1980 to 1982, only 41 percent did so (Atoh, 1988).

The proportion of the population aged 65 and older in ordinary (noninstitutional) households who lived with their children declined from 77 percent in 1970 to 65 percent in 1985 (chart 2). In contrast, in most other Asian countries the old pattern seems to be holding: approximately three-quarters of the elderly live with their children (Martin, forthcoming). In Japan, more and more elderly persons live with their spouse only (22 percent in 1985) or live alone (10 percent). Still, the pattern is very different from that of the United States, where in the late 1970s only about one-sixth of the elderly lived with their children (Kamo, 1988). Many more live with their spouse only or alone.

3Postwar constitutional changes weakened some traditional incentives for the coresidence of parents with the eldest son. The new constitution gives a surviving spouse one-half of the assets and divides the rest (with the exception of farmland) equally among all children. A will can specify a different division for only one-half of the total assets. However, individuals may renounce their shares, and more than twice as many women as men do so (Smith, 1987). Renunciation is sometimes used to provide the bulk of the estate to the adult child who promises to take care of a surviving parent.

4About 5 percent of elderly Americans live in nursing homes (Soldo and Agree, 1988), whereas only 1.6 percent of Japanese do so. However, elderly Japanese have much longer hospital stays than Americans.

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**Chart 2**


<table>
<thead>
<tr>
<th>Year</th>
<th>Living with others</th>
<th>Living alone</th>
<th>Living with spouse only</th>
<th>Living with children</th>
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<tbody>
<tr>
<td>1985</td>
<td></td>
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<td>1980</td>
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<td>1970</td>
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Attitudes about Intergenerational Support

The majority of elderly Japanese today still prefer living with their children, in contrast with elderly Americans, who generally prefer to live separately. A 1986 Japanese government-sponsored survey of persons aged 60 and older in five countries indicated that 58 percent of Japanese and 66 percent of Thais thought it best for the older and younger generations to live together. In contrast, only 34 percent of Italians, 4 percent of Danes, and 3 percent of Americans agreed. The relationship considered best in the three Western countries was one in which the generations live separately but meet to eat and talk together (Japan Management Coordination Agency, 1987).

There were also substantial differences in whom elderly persons wanted to take care of them if they became physically weak. More than 88 percent of elderly Japanese, Thais, and Italians wanted to have family members care for them, whereas 69 percent of Americans and only 20 percent of Danes did so.

Labor Force Participation and Unemployment

More elderly people work in Japan than in any other developed country (Torrey, Kinsella, and Taeuber, 1987). In 1987, about 36 percent of Japanese men and 15 percent of Japanese women aged 65 and older were in the labor force. In contrast, in the United States, the rates were 16 percent for men and 7 percent for women (Japan Statistics Bureau, 1987; U.S. Department of Labor, 1988).

Labor force participation patterns in Japan are different for men and women (chart 3). Participation rates for males are high and constant in the prime-working-age groups. The rates of women are lower and show an M-shape, reflecting the fact that many women temporarily

5The labor force includes both people who are currently employed and those who are actively looking for work.
drop out of the labor market upon marriage or the birth of a first child and reenter at a later date. For both men and women, labor force participation decreases after age 55, although relatively slowly.

What accounts for the relatively high labor force participation of elderly Japanese? Some point to the fact that, until recently, public pension benefits were limited and not universally available, creating an economic necessity for people to continue working. Others have attributed the high participation to the nation’s strong work ethic and work-group orientation (Seike, 1988; McCallum, 1988). The 1986 cross-national study sponsored by the Japanese government indicated that more than 90 percent of elderly American and Japanese workers wanted to continue working (Japan Management Coordination Agency 1987).

Among these, just over one-third in both countries wanted to continue for the income (39 percent of Japanese and 37 percent of Americans). Forty-two percent of the Japanese, but only 18 percent of Americans, wanted to continue for health reasons. Far fewer Japanese than Americans (8 percent versus 41 percent) said they worked for the enjoyment of it.

According to a 1983 Ministry of Labour survey, many older Japanese who are not working would like to work: 63 percent of those aged 55–59, 55 percent of those aged 60–64, and 39 percent of those aged 65–69 (Japan Institute of Labour, 1988b). The age pattern of unemployment rates shows that there is an excess supply of labor at older ages, even though Japan’s overall unemployment rate is low by international standards (chart 4). The age patterns of unemployed men up to their

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### Chart 4

**Ratio of the Age-Specific Unemployment Rate to the Unemployment Rate, Males Aged 45–49:**

**Japan and the United States, 1987**

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</thead>
<tbody>
<tr>
<td>Ratio</td>
<td>0</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
</tbody>
</table>


Note: The youngest group for the United States is 16–19 rather than 15–19.
late 40s are remarkably similar in Japan and the United States: unemployment is relatively high among men in their late teens and then declines steadily. After age 50, U.S. unemployment continues to decline with age. In Japan, however, unemployment peaks again for the age 60–64 group, rising to 4.5 times that of the age 45–49 group, and is almost as high as that of men in their late teens. Among the unemployed aged 55 and older in 1986, 28 percent reported having been jobless for more than 1 year, and 31 percent for 6 to 12 months. Comparable figures for the general population were 17 percent and 22 percent, respectively (Japan Institute of Labour, 1988a).

**Well-Being of the Elderly**

More than one-half of Japan’s elderly report that they are financially comfortable, although they may have fears about whether their funds will last through their lifetimes. When interviewed about their economic situation, 53 percent of Japanese over age 60 said their circumstances were not at all difficult, 31 percent described them as being a little difficult, and only 16 percent called them quite or very difficult. This pattern of responses was similar to that of the elderly in Denmark and in the United States (Japan Management Coordination Agency, 1987).

In 1986, more than one-half of Japanese aged 60 and older reported that the public pension system was their major source of income (up from about one-third in 1981). During the same period, the proportion relying mostly on earnings fell from 31 percent to about 25 percent, and the proportion depending on support from their adult children dropped from about 16 percent to 9 percent (Japan Management Coordination Agency, 1987).

**Leisure and Social Life**

Many elderly Japanese seem to be somewhat at a loss about what to do with their leisure time. Even allowing that about twice as many elderly Japanese work as do elderly Americans, U.S. elderly are much more involved with hobbies and activities outside the home. The 1986 cross-national survey found that the percentage of Americans aged 60 and older who were frequently involved in clubs or hobby groups was almost five times as great as the percentage of Japanese (26.4 percent versus 5.6 percent) (Japan Management Coordination Agency, 1987). More than eight times as many elderly Americans as elderly Japanese were involved in religious activities, twenty times as many attended social gatherings, nearly four times as many engaged in sports, and twice as many served as community volunteers or were active in a senior day care center. Almost 50 percent of elderly Thais and almost 40 percent of elderly Americans, Italians, and Danes reported daily chats with neighbors, compared with less than 20 percent of elderly Japanese. Close to one-third of elderly Japanese reported little neighborhood contact, in contrast with only 7 percent of Americans. It seems likely, however, that future generations of elderly Japanese will use their leisure time to greater advantage, having had more experience in leisure activities prior to old age; this could change labor force participation and consumption patterns among the elderly.

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6It is difficult to accurately assess the economic situation of the elderly in Japan, since income and expenditure data are gathered by household units and many elderly persons live with their children. However, 1986 statistics indicate that the average income of households headed by persons aged 65 and older was 82 percent of that of all households. The assets of the elderly were 148 percent of the national household average (boosted by higher rates of home ownership), and their liabilities were only 33 percent (Japan Statistics Bureau, 1987).

7Japan is gradually moving from the standard five-and-one-half-day week to a five-day week. Also, in 1987 the Labor Standards Law was revised to provide guidelines for the maximum hours to be worked each week without overtime pay, although the implementation of the guidelines will be at the discretion of the Ministry of Labour. The revised law also makes it illegal to punish workers who take their full entitlement of vacation days (Jameson, 1987). In 1986, 28 percent of workers in firms with 30 or more employees were working only five days a week, up from 21 percent in 1975 (Japan Institute of Labour, 1988b).
◆ The Economic Effects of Aging

The aging of the Japanese population influences many areas of the society, including social service spending levels, productivity, and immigration policy.

Social Service Spending Levels

The high proportion of elderly people, who tend to be heavy consumers of health and social services, is driving up overall social service spending in Japan. Although the proportion of Japan’s national income devoted to total social welfare expenditures is low in comparison with that of most other more developed countries, it is increasing steadily (Jones, 1988). For example, in 1983 the ratio of social expenditures (including medical care) for persons of all ages to national income was 14 percent in Japan, compared with 18 percent in the United States, 31 percent in West Germany, and 43 percent in Sweden (Japan Ministry of Health and Welfare, 1988; Asahi Evening News, 1988). However, 10 years earlier, Japan devoted only 6 percent of its national income to social expenditures. Overall social service spending is projected to rise in the future in Japan, the United States, the United Kingdom, France, and West Germany (chart 5). Although starting with the lowest percentage, Japan is expected to surpass the United States and the United Kingdom by the year 2025, with 27 percent of its gross domestic product going to social services (Heller et al., 1986).

Another way of grasping the increasing burden of social welfare expenditures is to look at the ratio of the sum of taxes plus premium payments to the public pension scheme as a percentage of national income. In Japan, this ratio is expected to increase from 37 percent in 1988 to approximately 45 percent by the year 2010. The ratio of social security premiums alone to national

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Chart 5

Social Expenditures as a Percentage of Gross Domestic Product in Selected Developed Countries:
1980 and Projections to 2025

income is expected to increase from 11 percent to about 18 percent (Japan Institute of Labour, 1988c; Japan Times, 1988a).

Other Economic Effects

These social costs must be borne at the same time that the aging of the population is changing the character of the Japanese labor force. It seems likely that the proportion of older workers in the labor force will increase, although it is not clear whether this trend in itself will make the economy less productive. To some extent, the increasing number of working women may offset the aging of the working population, although this trend has the side effect of limiting the number of middle-aged women available to care for the elderly at home.

An aging society can increase the number of younger workers in one of two ways: it can produce more children (which seems unlikely for Japan) or it can bring in more young workers from abroad. Despite the homogeneous and somewhat xenophobic nature of Japanese society, the number of foreign workers in Japan is increasing, with estimates of 54,736 legal workers and 50,000 or more illegal workers in 1986 (Japan Economic Survey, 1988; Japan Times, 1988c). Surveys indicate that there is a growing acceptance of skilled foreign workers but a continued reluctance to allow unskilled workers into the country without strict limits on their length of stay and activities.

There are other economic concerns as well. Some experts predict that an older population may reduce Japan’s high saving rate because of the extended period of retirement and increased pension premiums, but there is no firm evidence of these effects. No matter what happens to total savings, it is likely that an increased proportion of the capital accumulated will be sent abroad to take advantage of cheaper, more plentiful labor. Increased overseas production and capital outflow should help to reduce Japan’s balance-of-payments surplus.

Altogether, it is expected that, with slower growth of the labor force and capital accumulation and a restructuring of the economy toward the less productive service sector, the Japanese economy’s growth rate will slow, at least to some extent (Ogawa, 1982 and 1984). However, if Japan continues to succeed in restructuring its economy, its economic growth may stimulate continued capital accumulation and provide greater resources to help pay the costs of its aging population.

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Japanese Retirement and Health Benefit Systems

As life expectancy increases, issues concerning the retirement age, the adequacy of private and public pensions, and provisions for health care assume growing importance.

Lifetime Employment and Retirement

Japan is noted for its “lifetime employment system” whereby, in theory, young men entering the job market sign on with one company and remain there through-

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8Highly industrialized Japan could also intensify its use of labor-substituting robots. Although Japan still lags behind Sweden in the ratio of robots to industrial workers—10.7 versus 17.0 per 10,000 workers in 1985—it is far ahead of the rest of the world (including the United States, where the ratio is 2.3 per 10,000 workers) (Smith, 1985).
out their working lives. Salary increases are a function of longevity, with various allowances for dependents and special duty. This system was instituted between World War I and World War II, during a time of labor shortage, when a need existed to ensure company loyalty, especially among skilled workers who had been trained by a company.

Many in the Japanese labor force are excluded from this system, however: for example, agricultural workers, family workers, the self-employed, and part-time workers. And employers, wary of committing themselves to new regular workers for whom they must provide lifetime benefits, have increasingly turned to part-time arrangements. Women and elderly workers have filled many of these positions. In 1987, among those employed, almost one-third of all women, more than one-half of women over age 65, and one-third of men over age 65 were working part time (Japan Statistics Bureau, 1988).

In 1987, only 39.4 million workers, or 65 percent of the total labor force, were “regular” employees, or workers who might be eligible for lifetime employment. If regular women employees, whose careers are usually interrupted, are subtracted, 26.5 million regular male employees are left (Japan Statistics Bureau, 1988). Thus, probably less than one-half of the participants in the Japanese labor force are beneficiaries of Japan’s lifetime employment system.

Until recently, this security ended at age 55 even for those in the lifetime system, because of the age limits maintained by large firms with uniform mandatory retirement systems (that is, with no differentiation by occupation or gender) (table 1). In 1968, almost 64 percent of firms with 30 or more employees and uniform systems required employees to retire at age 55 or younger. When first instituted, age 55 was consistent with life expectancy. But in response to lower mortality and the aging of the population, the Japan Ministry of

\[a\]Unlike the United States, Japan has no general law concerning mandatory retirement or the age limit, and only in the 1980s have gender differences in mandatory retirement—women being forced to retire earlier than men—been ruled illegal.

<table>
<thead>
<tr>
<th>Table 1</th>
<th>Retirement System and Age Limit of Employees in Firms with 30 or More Employees: Japan, Selected Years</th>
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</thead>
<tbody>
<tr>
<td>Percentage of Firms with Age Limit</td>
<td>69.0%</td>
</tr>
<tr>
<td>Percentage of Firms with Uniform System( ^a )</td>
<td>51.0</td>
</tr>
<tr>
<td>Distribution of Age Limits in Firms with Uniform System</td>
<td></td>
</tr>
<tr>
<td>&lt; 55 years</td>
<td>0.3%</td>
</tr>
<tr>
<td>55</td>
<td>63.2</td>
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<tr>
<td>56–59</td>
<td>14.2</td>
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<tr>
<td>60</td>
<td>22.3( ^b )</td>
</tr>
<tr>
<td>61–64</td>
<td>0.4</td>
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<tr>
<td>65+</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Source: Japan Ministry of Labour, Employment and Management Survey (Tokyo: Japan Ministry of Labour, various years).

\(^a\)No differences on the basis of occupation or sex.

\(^b\)Aged 60 and older.
Labour began in the 1970s to pressure companies to raise the age limit. By 1987, more than one-half of the firms specified 60 years as the age limit. Still, combined with current life expectancy, this limit suggests a retirement period of more than 15 years if a new job is not found by the “retiree.”

Private Retirement Allowances and Pensions

In 1985, 89 percent of firms with 30 or more employees gave a retirement allowance. More than one-half of these firms gave lump-sum payments only, while 14 percent gave pensions and the rest gave a combination of the two, often leaving the choice to the employee (Japan Institute of Labour, 1988b). In the early 1960s, the government began to provide tax advantages for pension funds held outside firms. Also, pensions allow payments to retirees to be spread out, so their popularity among firms has increased in recent decades. However, pensions are not granted for the employee's lifetime but rather for a fixed period, usually about 10 years. The average value of the allowance is more or less the same regardless of the form. Many Japanese workers prefer the lump-sum option because they have specific plans for the money, they want the tax advantages associated with taking the lump sum, or they fear that inflation could erode the pension's value.

The amount of the retirement allowance is based on years of service, occupation, education, gender, and last basic monthly salary. In 1985, the average retirement allowance for a male high-school graduate with 35 or more years of service in an administrative, clerical, or technical job was equal to about four years' worth of his last monthly base pay. Those with less service receive a smaller allowance.

Given the increase in salary with longevity in the seniority-wage system and the links between retirement allowance, length of service, and last salary, many firms have been reluctant to raise the retirement age limit, despite strong government and social pressure to do so. At the same time that they raised their age limits, some firms adjusted downward their formula for calculating retirement allowances (Japan Institute of Labour, 1984). Some firms also began offering early retirement incentives even as they raised their age limits.¹⁰

Employment Policies for Older Workers

In the 1970s and early 1980s, the Japanese government encouraged firms to raise their retirement limits to at least age 60. With the passage in April 1986 of the Law Concerning Stabilization of Employment for Older Workers, the government shifted its efforts to raising the age limit to 65 years. The 1986 law has three major components: (1) promotion of continued employment up to age 65, working from a base age of 60; (2) promotion of reemployment of “retired” workers; and (3) assistance in preparation for retirement and job placement programs for older workers (Japan Institute of Labour, 1988a).

Although the Diet, the Japanese legislature, rejected a tougher version of the law that would have made it illegal to force a worker to retire before age 60 (Watanabe, 1986), the law does provide measures to discourage firms from setting a lower retirement age. If necessary, the Ministry of Labour offers “administrative guidance” to firms to develop plans to raise the retirement age in accordance with national standards.

Incentives to employ workers over age 60 are also provided. For example, government subsidies are paid to employers who hire employees aged 60 to 64 through the Japanese Public Employment Security Offices. One-fourth to one-third of the newly hired older employee's wage is paid for one year. There are also lump-sum bonuses of up to nearly $5,000 for each worker hired within three months of retirement through the out-

¹⁰Early retirement options are especially popular in the largest firms. In 1986, only about 4 percent of all firms with 30 or more employees offered early retirement incentives, but more than one-half of the firms with 5,000 or more employees and 40 percent of those with 1,000 to 4,999 employees did so (Japan Ministry of Labour, 1987).
placement effort of the previous employer (Osako, 1988). Firms also receive subsidies for training middle-aged and older workers to prepare for retirement.

In each municipality, the government supports voluntary organizations called Silver Human Resource Centers that help older workers find part-time and temporary jobs. There are more than 300 of these centers, which specialize in low-level jobs, such as supervising parking lots, cleaning parks, and distributing leaflets, with wages of about 30,000 to 40,000 yen ($240–$320) per month11 (Katama, 1988).

In 1986, almost 70 percent of firms with 30 or more employees had systems for reemploying or extending elderly workers' employment.

In 1986, almost 70 percent of firms with 30 or more employees had systems for reemploying or extending elderly workers' employment. In the largest firms, employees reaching or approaching the age limit are frequently reemployed in subsidiary firms. Transferees who move from government agencies to contractors' firms are known as ama kudari, or “people who have come down from heaven.”

Such options are not available to employees of smaller firms, nor are they offered to the substantial number of workers who have never been part of the lifetime employment system. Often these workers must not only change jobs but also change industries or occupations to find employment, and extended periods of unemployment are not uncommon.

Public Pensions

In April 1986, major revisions were made to the Japanese public pension system. Previous to that time, the majority of pension beneficiaries in Japan were participants in either the Employee Pension Insurance (EPI) or the National Pension (NP) system (Japan Social Insurance Agency, 1987; Hiraishi, 1987). EPI was founded in 1941 and covered workers in firms with five or more employees. NP, established in 1959, covered self-employed workers and employees of smaller firms. The 1986 reform merged the two systems, established the right of women to pension benefits on their own (not just as dependents of employees), and developed a timetable to gradually reduce benefits to control costs. Even under that reform, contribution rates in the 21st century will triple.

Under the new combined plan, membership in the NP scheme is compulsory for everyone in Japan aged 20 to 60. Premiums in 1987 were 7,400 yen, or about $60 per month. The basic monthly pension available to persons at age 65 under this system was approximately 52,200 yen, or $420, for those who had contributed to one of the two original systems throughout their working lives.12

Workers up to age 65 do not pay directly into NP, but are required to pay into the new EPI, which in turn makes an appropriate contribution to NP to cover the employee’s basic pension. The rest of the 12.4 percent13 of male workers’ regular monthly salary that is collected as a premium (one-half from the employee and one-half from the employer) goes into a fund that will be used to pay an earnings-related pension in addition to the basic pension. The pensionable age is 60 for males, as it was

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11Using an exchange rate of 125 yen per U.S. dollar.
12In the future, all benefits will be adjusted according to the consumer price index.
13Rate as of 1987.
under the old EPI. Under EPI, women are eligible for benefits at age 55, and their contribution rate was only 11.45 percent in 1987; however, these gender differences will be equalized for rates by 1993 and for ages by the year 2000.

The Ministry of Health and Welfare would like to raise the eligibility age to 65, although this proposal failed to win approval at the time of the reform. It is estimated that the basic-plus-earnings-related pension benefits will replace about 69 percent of a retiree’s last salary. Without the reform, the replacement rate would have gone as high as 83 percent (Japan Foundation for Research and Development of Pension Schemes, 1985; Jones, 1988). A complicated transition formula for benefits, which will be in force for the next 20 years, will ease into the system those who were between the ages of 40 and 60 in 1986, so that they can adjust their financial planning to the new system. Persons who were aged 60 and older in 1986 will receive benefits calculated under the old system.

Japanese workers can choose either early or late receipt of benefits with commensurate decreases or increases in average benefits. Earnings tests on other sources of income can substantially reduce benefits for those aged 60 to 65, but become less stringent thereafter. Pension rules provide incentives and disincentives that can affect both older people’s labor force participation rates and the number of hours they work. It is expected that, other things being equal, the pension reform will increase the supply of older workers, especially of those wishing to work on a part-time basis (Seike, 1988). Increased participation of the elderly in the labor force, or at least no further decline in their participation, would be desirable to the extent that it would help hold down the ratio of pension system beneficiaries to contributors and slow the increase of contribution rates. Based on the 1986 reform, the government projects that the premium rate under EPI will increase to 28.9 percent in the year 2025 (up from 12.4 percent in 1987). If the Ministry of Health and Welfare succeeds in raising the EPI pensionable age to 65, this ultimate rate will be reduced to 23.9 percent (Hiraishi, 1987).

However, such a change would challenge Japan’s employers to provide more opportunities for older workers.

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National Health Provisions

In Japan, 99 percent of the population has health insurance, most of which is provided under one of two major systems. Health Insurance for Employees (HIE) covers employees and their dependents (52 percent of the insured population in 1986). National Health Insurance (NHI) covers self-employed people, retirees, and their dependents (38 percent of the insured population) (Hiraishi, 1987; Japan Social Insurance Agency, 1987).

Under HIE, the employer and employee share the cost of premiums, which in recent years has been approximately 8 percent of an employee’s earnings (on average, about 230,000 yen, or $1,840, in 1985). Insured individuals pay 10 percent of the cost of medical care they receive and a higher proportion for their dependents: 20 percent of inpatient costs and 30 percent of outpatient costs. A Central Social Insurance Council determines standard medical care fees for different procedures. Some firms may provide supplemental benefits, and supplemental private medical insurance is growing in popularity. Should the amount paid by the insured as copayment exceed approximately $430 per month, the system reimburses the difference.

Under NHI, the average premium paid by individuals was $325 in 1985. The copayment rate for all care is 30 percent for insured persons and dependents. As with
HIE, monthly copayments exceeding $430 per month are reimbursed.

Given the early retirement age in Japan, most of the elderly are insured under NHI, which until 1968 required a copayment of 50 percent for dependents. Thus, if the spouse of an elderly person was in poor health, the copayment mounted.

National programs for the elderly are administered by local governments with subsidies from the national government. For example, the government subsidizes three types of nonprofit homes for the aged. Most of these homes (1,731, or about 60 percent of total nursing home capacity) serve the bedridden, while 942 (about one-third of total capacity) serve elderly persons who can more or less take care of themselves. An additional 286 homes that serve persons with limited incomes charge moderate fees (Japanese Ministry of Health and Welfare, 1988). Only 1.6 percent of Japanese over age 65 live in nursing homes, as opposed to about 5 percent of this age group in the United States. There is excess demand for placement in homes in Japan, especially in urban areas, and hospital stays might be shortened if capacity were increased.

The 1983 health insurance reform attempted to promote more care for the elderly outside hospitals through programs offering health advice to patients discharged from hospitals, home visits by nurses, physical therapy, and day care for the mentally impaired. However, shortages of trained personnel have seriously limited the actual provision of these public services. Private health services to the elderly in their homes have also been slow to expand, partly because of the resistance of some physicians who have a vested interest in hospital-based services (Lawrence, 1985; Kimura, 1988).

In 1986, in recognition of the stresses on those who care for the elderly at home (generally wives and daughters-in-law), the government announced a goal of increasing the number of day care centers from 500 centers to 3,000 in the near future and ultimately to 10,000. There has already been some progress in the
provision of home helper services. Between 1970 and 1987, the ratio of home helpers to elderly persons increased from 1 per 1,210 to 1 per 530.

Nevertheless, the various levels of government will need to move quickly to cope with the rapid growth in the number of elderly persons needing health care or assistance in their daily lives. An expert on the economics of aging and health care in Japan has projected that the elderly’s share of total medical expenditures under the two major systems will increase from 34.8 percent in 1986 to 43.1 percent in the year 2000 and to 54.6 percent in the year 2025 (Ogawa, 1988). Ogawa projects that the ratio of elderly persons who are bedridden or who suffer from senile dementia to the number of women aged 45–54 who are not working (typical caregivers of the frail elderly) will increase from 42:100 in 1985 to 63:100 in the year 2000 and 123:100 in the year 2025.

Some local governments have developed programs of their own. In Taito, a Tokyo ward, volunteers who help the elderly in their homes earn coupons that can be redeemed in the future for themselves or for their relatives (Burgess, 1986). The Tokyo Metropolitan Government is developing a radio transmitter system for the elderly to use in case of emergency, but so far only 710 of the 138,000 elderly persons who live alone in Tokyo participate in the system (Barney, 1988). Musashino City, a suburb of Tokyo, provides care until death for the elderly who turn over their property as collateral (Hirayama, 1986).

**Conclusion**

In recent years, Japan and the United States have been facing the challenge of controlling costs of public pensions and health care. They have each successfully faced solvency crises in their public pension systems; both will probably make additional changes in the future, as uncertainty over further increases in the average life span makes projection difficult.

The United States and Japan also currently face crises in their long-term care systems, with tensions between the traditional health infrastructure (dominated by doctors and hospitals) and the need to develop less costly alternatives for long-term care based on home care, day care for disabled adults, and other social services. Ultimately, both countries must wrestle with the value of prolonging life when its quality erodes through degenerative disease. Furthermore, in both countries, the traditional roles and values that keep women at home to care for dependent relatives (either children or the elderly) have been challenged by economic pressures and the emerging value placed on self-fulfillment through productive labor.

More needs to be learned about how pension and retirement systems provide incentives and disincentives to work.

Of course, many elderly persons can and do take care of themselves. More needs to be learned about how pension and retirement systems provide incentives and disincentives to work. The United States and other countries could learn from Japan’s experience in raising retirement and eligibility ages while at the same time providing incentives to employers to hire older workers.

In looking at aging policies in Japan, Americans may sense something familiar in the underlying push and pull of the various interests and values involved. The basic conflict for both countries is how to apportion the cost burden of providing for the elderly among government, employers, and individuals and their families. Both countries experience tensions between employers, who push senior workers to retire early to reduce labor costs, and the government, which would like to delay retirement to control public costs. Rising costs may ultimately force both governments to tilt in the direc-
tion of providing health and retirement benefits on the basis of need rather than age. Such a trend would put more pressure on individual and family resources.

The concerns are similar because Japan and other developed nations face a new era in human history that has resulted from the successful efforts to enable people to control their childbearing and to live longer. Japan, because of its rapid demographic transition, is simply facing the new demographic reality of aging with greater urgency.

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This Issue Brief was adapted from The Graying of Japan by Linda G. Martin, research associate at the East-West Population Institute and professor of economics at the University of Hawaii, with editorial assistance from Susan Kalish and EBRI’s education staff.