

Employment and Retirement of Older Workers in Japan

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A B S T R A C T _____

This paper examines how recent changes in labor force institutions affect older workers in Japan. In the first part of the paper, the focus is on changes in retirement age and on schemes to provide employment for older workers. The second part reviews private and public retirement pay systems. Finally, future prospects for older workers in a rapidly aging Japan are highlighted. Throughout the paper the experience of American workers serves as a point of reference.

I. Introduction

Japanese workers looking ahead to their retirement face considerable uncertainty these days, as opportunities for employment of older workers and compensation upon retirement are changing dramatically. As was outlined by Kuroda and Hauser (1981) in the first issue of this paper series, aging of the population in Japan has important implications, and some of the most important have to do with the labor force. These labor force issues are receiving much attention from government and private sectors in Japan, as well as from individuals and the media. A recent Asahi Shimbun editorial stated:

With the rapid aging of Japan's population, the mapping out of an employment policy 10 years hence is a most urgent task . . . more than any single employment policy, we feel that steps to expand employment for workers in their 60s should take priority (Asahi Evening News, June 26, 1981).

In this paper, we will review the changes in the past 15 years in labor force institutions pertaining to older workers in Japan. In particular, we will focus on two topics: 1) mandatory retirement and employment opportunities for older workers, and 2) retirement pay systems, both public and private. An attempt will be made throughout to highlight differences from and similarities to the United States.

II. Mandatory Retirement and Employment Opportunities for Workers

Americans are amazed to hear that for most of the postwar period in Japan workers have been required to retire from their companies at age 55. Their amazement stems from several sources.

First, it seems ironic that retirement should come so early in a population that has one of the highest life expectancies on earth. In 1960 expectation of life at birth for a Japanese male was 66.7 years and by 1978 was 73.3 years. In 1960 a 55-year-old male could expect to live 18.5 more years, and by 1978 22.2 years (Japan Office of the Prime Minister, Japan Statistical Yearbook, 1980, p. 41).

Second, the Japanese are known for the respect that they show to their parents and to their elders, whereas the United States is often viewed as a youth-oriented society with little patience for

or appreciation of its senior citizens. Yet in the United States recent national legislation has made it illegal to force workers to retire before age 70, and discrimination in employment on the basis of age has been outlawed.

Third, many American workers are envious of the lifetime employment system that they hear the Japanese work under. Their impression is that although the Japanese must work very hard for and be very loyal to their employers, the worker is rewarded by regular pay increases as he ages and the employer makes a lifetime commitment to the employee, not one that ends at the early age of 55. The amazement is compounded when it is learned that workers in Japan are not eligible for government pensions until age 60. Suddenly the Japanese system does not sound so good anymore to the American worker.

Thus, for all these reasons, it is surprising to outsiders to learn that Japanese workers are forced to leave their jobs as early as age 55. In part, this surprise and amazement is warranted, because in some ways Japan does not treat its older workers as well as the United States does. But in part these perceptions are based on a misunderstanding of what retirement means in Japan, and it is that question that we address first.

A. Teinen or Age Limit

The concept of retirement age in Japan is quite different from that in the United States. In Japan, teinen or age limit indicates the age at which a worker is expected to end his primary work with the company that has employed him often, but not always, since his graduation from school. Reaching the age limit does not necessarily mean that the worker will drop completely out of the labor force. In the United States, however, reaching the retirement age in more cases than not implies complete withdrawal from the labor force, and many workers choose to retire before they are required to, for reasons we will discuss later.

Thus, even though an American worker may face a later mandatory retirement age, more Japanese remain in the labor force at older ages. Table 1 shows by age the labor force participation rates in 1980 for older Japanese and United States males. In all age categories above 50, the Japanese have a higher participation rate.

Even though reaching the age limit in Japan does not imply the

end of working life for most Japanese males, firms are being pressured by the government and labor unions to raise this age limit. Throughout the 1970s the Ministry of Labour urged raising the age limit to 60, however, unlike the United States there has been no legislation to increase it. Instead the government has relied on its influence in negotiations between the bigger firms and the unions.

There has been some increase in the age limit in recent years, but progress has been slow and was interrupted by the economic setback of the oil crisis in the mid-Seventies. Table 2 shows the age limits set by private firms that have more than 30 employees and that apply a uniform retirement standard to all workers.

In 1968, 51 percent of companies with 30 or more workers had a uniform retirement system, i.e., the same age limit was applied to workers of both sexes and in all job categories. By 1980, 60 percent had such a system. For each year the distribution of the companies by the age limit they enforce is shown. For 1980, the companies are also shown according to the number of employees they have.

From January 1968 to January 1980, the average age limit increased only one year, from 56.4 to 57.4. There was an increase in the proportion of companies setting the age limit at 60 and a decline in the proportion setting it at 55. Even so, more firms still set the limit at 55 than at 60. Smaller companies have been more willing

Table 1. Labor Force Participation Rates for Older Japanese and United States Males, 1980

Age Group	Japan	United States
50 to 54	96.0%	89.3%
55 to 59	91.2	81.9
60 to 64	77.8	61.0
65 plus	41.0	19.0

Sources: Japan Office of the Prime Minister, Annual Report on the Labour Force Survey, 1980, p. 31; United States Department of Labor, Employment and Earnings, Vol. 28, No. 1, January 1981, p. 164.

Table 2. Age Limits of Companies with 30 or More Employees and Uniform Retirement System, Various Years, and by Firm Size, 1980

	% of Companies with Uniform System	Age Limit										Average Age
		<55	55	56	57	58	59	60	61-64	65+		
January 1968 All sizes	51.2 (100.0)	3.3	63.2	5.1	5.8	---3.3----	-----22.3-----					56.4
January 1971 All sizes	51.0 (100.0)	0.7	57.9	5.3	8.3	4.2	0.5	21.7	0.3	1.1		56.6
January 1974 All sizes	43.7 (100.0)	0.3	52.0	2.1	5.0	5.1	0.1	32.4	0.4	2.6		56.9
January 1976 All sizes	52.3 (100.0)	0.3	47.3	3.1	6.9	5.7	0.2	32.3	0.3	3.3		57.1
January 1978 All sizes	55.1 (100.0)	0.1	41.3	4.2	8.4	6.7	0.1	33.7	0.4	4.4		57.2
January 1980 All sizes	60.0 (100.0)	0.2	39.5	4.2	8.4	7.3	0.2	36.5	0.7	2.5		57.4
5,000+ Employees	79.0 (100.0)	0	35.3	5.3	17.1	14.1	0.6	27.6	0	0		N.A.
1,000-4,999 Employees	70.5 (100.0)	0	38.9	9.4	15.1	11.8	0.2	22.8	1.4	0.3		N.A.
300-999 Employees	69.3 (100.0)	0.1	45.1	4.9	14.3	9.0	0.4	25.1	0.9	0.1		N.A.
100-299 Employees	65.9 (100.0)	0.1	44.4	5.3	9.1	7.5	0.4	30.8	0.9	1.5		N.A.
30-99 Employees	57.0 (100.0)	0.3	37.1	3.6	7.2	6.8	0.1	40.4	0.5	3.2		N.A.

Sources: Japan Ministry of Labour, Employment Management Survey, various years (N.A. = not available)

to let their employees work longer. Over 40 percent of companies with 30 to 99 employees in 1980 allowed their workers to stay on until age 60, whereas only 27.6 percent of companies with 5,000 or more employees set the limit that high.

The timing of increases in the age limit is detailed in Table 3. Shown there is the percent of firms with a uniform retirement system that raised the age limit in the intervals between surveys. (Note that the first two intervals are three years long, whereas the later ones are only two years.) The percent of companies that raised the limit is also shown by the specific changes in age.

Allowing for the difference in interval length, the period of the most increases was 1968 to 1971. Fewer of the companies raised the limit from 1971 to 1974, but of those that did almost 60 percent increased the age limit from 55 to 60. During the periods 1974 to 1976 and 1976 to 1978, increases of such length were much less common, but from 1978 to 1980 over 30 percent of the companies raising the limit chose the five-year increase.

Tables 2 and 3 report on companies with a uniform retirement system, however, in 1980 18.4 percent of companies with 30 or more employees and with retirement systems still set different age limits for men and women. Recently there have been court cases ruling that such discrimination is illegal, so it is expected that this type of distinction in the retirement system will become less common in the future.

What are the obstacles to raising the age limit? This question was asked in the 1980 Employment Management Survey, and 22.7 percent of the companies surveyed indicated management problems, such as finding appropriate jobs for older workers and providing promotion opportunities for younger workers. Twenty-one percent cited financial concerns, such as larger wage bills given more older workers in a seniority-wage system and greater retirement costs. In most companies, retirement allowances are based on years of service and final wage rate, so raising the age limit would lead to increased costs, especially if wages continue to be determined using a system based on seniority, rather than on ability.

In fact, some companies already feel so heavy a burden of older workers that they are offering incentives to workers to retire even earlier than age 55. Sekiguchi (1980) outlines several of these

Table 3. Uniform Age Limit Increase in Companies with 30 or More Employees and Uniform Retirement System

Period	% of Companies with Uniform Increases	Percent Distribution of Companies by Specific Age Limit Increase										
		< 55 to 55	55 to 56	55 to 57	55 to 58	55 to 60	55 to 61+	56 to 57+	57 to 58+	58 to 59+	59 to 60+	60 to 61+
1968 to 1971	8.7 (100.0)	6.8	19.1	21.5	4.6	31.0	0.5	3.6	5.9	5.6	---	0.2
1971 to 1974	4.8 (100.0)	1.0	5.5	8.6	12.1	59.2	---	4.1	2.9	3.9	---	2.1
1974 to 1976	4.4 (100.0)	1.6	12.0	14.4	13.6	16.7	0.8	9.3	16.5	6.2	0.5	6.4
1976 to 1978	3.7 (100.0)	1.4	7.5	24.9	11.4	22.4	3.4	6.5	11.9	4.2	1.4	5.1
1978 to 1980	4.4 (100.0)	---	10.1	17.0	10.6	30.8	---	3.7	18.4	2.3	---	7.1

Source: Japan Ministry of Labour, Employment Management Survey, various years

programs, including that of a company where the normal retirement age is 57, but workers retiring at ages 48 to 53 receive a benefit over 40 percent greater than what they normally would at age 57. In addition, some companies are providing professional counseling services to assist their workers in starting second careers (Asahi Evening News, May 2, 1981).

Agreements to raise the age limit that have been reached are often conditional on alleviating the management and financial concerns of the company. For example, the Japan Steel Corporation will raise the age limit to 57 this year and gradually extend it to 60 in the future, but the proportion of seniority-based pay in the basic wage will be lowered, less weight will be put on length of service in determining retirement allowances, and older workers will be asked to resign from supervisory positions (Inagami, 1980).

B. Reemployment and Employment-Prolonging Systems

Agreements to extend the working life of employees, such as the one just mentioned, in some ways merely formalize the systems of reemployment and employment prolonging that many companies already use and that more and more are adopting. These plans often provide more flexibility than uniform increases in the age limit, because employment under them is most often offered only to selected employees of a company.

In 1980, 67 percent of all companies with 30 or more employees utilized one of these plans. Of these companies, 60.5 percent sometimes reemployed workers after their retirement, 26.4 percent had a system for prolonging employment beyond the age limit for some workers, and 13.1 percent used both systems. The reemployment plan is more popular in large companies, and the prolongation plan is more common in the smaller companies. According to the 1980 *Employment Management Survey*, 84.4 percent of the companies pay less to male workers under these plans than they did before the workers reached the age limit. Under the reemployment system, it is also common for the status of the worker's position to be lowered.

The Japanese government has been active in encouraging the employment of older workers, even though it has not sponsored legislation to change the age limit. In October 1976 the Diet adopted a "Law to Take Special Measures to Promote the Employment of Middle-Age

and Older Workers," a measure proposed by the Ministry of Labour. The law sets a target for each company of having 6 percent of its employees in the 55 to 64 age group. Although there are no sanctions for noncompliance, the Ministry can require firms to formulate plans for achieving the goal.

The Ministry of Labour since late 1977 has also been offering an "Employment Creation Subsidy for Middle-Age and Older Workers" as part of its Employment Stabilization Fund. This subsidy is available to companies that recruit new employees 55 to 64 years old during periods of high unemployment and that as a result employ a higher proportion of older workers. As of June 1979, large companies received 60 percent and small- and medium-size companies received 80 percent of the wages of new workers in the first year and 50 and 60 percent respectively in the following six months (Seki, 1980).

Funding for these subsidies is made possible through employer contributions to the Employment Stabilization Fund which was designed to maintain employment of all types of workers throughout the business cycle. Shimada (1981) reports that during 1979 approximately 86,000 older workers were supported through this program at a cost of 17 billion yen. He is pessimistic, however, as to the net employment effects of the subsidies, because the creation of employment opportunities for some workers may serve to displace others.

In recent years there has been an increase in the number of companies reaching the 6 percent target of the Ministry of Labour, but progress has been slow. Table 4 shows for 1977 through 1980 the employment of persons 55 and older in companies with 100 or more employees. By 1980 6.2 percent of the employees in these companies were 55 years or older, but it was the smaller companies that were more successful in meeting the target. Over three-quarters of companies with 1,000 or more employees were unsuccessful, whereas less than half of those employing 100-299 employees failed. This performance differential is not entirely surprising given that the premium to seniority is usually larger in the large firms, and thus the wage cost of employing older workers is greater.^{1/}

That Japan is not fully utilizing its older work force is also apparent from surveys of individual older people. In the summer of 1979 the Ministry of Labour surveyed 11,368 males who had reached the age limit. Over 92 percent of the respondents in the under 60

Table 4. Employment of Older Workers, 1977 to 1980

	Number of Companies	Total Number of Workers	Workers 55 Years and Older	% of Total Workers 55 Years and Older	% of Com- panies with Less Than 6% Older Workers
1977 - All Sizes	27,487	12,526,932	699,863	5.6	56.3
1978 - All Sizes	27,512	12,401,056	694,775	5.6	57.3
1979 - All Sizes	27,800	12,444,774	725,261	5.8	53.9
1980 - All Sizes	28,525	12,741,631	788,230	6.2	51.8
1,000+ Employees	1,787	6,289,438	281,583	4.5	77.5
500-999 Employees	2,405	1,639,643	102,940	6.3	69.2
300-499 Employees	3,627	1,378,666	97,460	7.1	62.4
100-299 Employees	20,706	3,433,884	306,247	8.9	45.7

Source: Japan Ministry of Labour, Employment Circumstances of Older People, various years.

group indicated that they wanted to work, and close to 78 percent of those in the 60 to 64 group and 67 percent in the 65 and older group said that they wanted to continue working (Japan Ministry of Labour, 1979).

Statistics on the ratio of number of job openings to number of job applicants by age also indicate the excess supply of older workers' services. Table 5 shows this ratio from 1960 to 1980 for workers of both sexes in various age groups. The demand for workers of all ages relative to their supply deteriorated in the mid-1970s, but job opportunities for workers above age 45 remain especially scarce. For example, in 1979 there were nearly four applicants for every job opening in the 55 to 59 age group. Clearly there is still progress to be made in providing employment opportunities for older workers in Japan.

III. Retirement Pay Systems

How do those who cannot find work survive? One source of support is the retirement allowance. In Japan nearly all employers make some payment to their employees upon their retirement, even though such a practice is not required by law. In the past this payment has been in a lump sum form, rather than a pension, but many companies are now switching to pensions or a combination of the two. Workers in Japan have relied less on government pensions than workers in the United States, because of the relative immaturity of the social security system in Japan. In this section, we will outline recent changes in private retirement allowances and public pensions.

A. Private Retirement Allowances

Over 90 percent of Japanese companies pay a taishoku-kin or separation from employment allowance to their workers, as shown in Table 6. This allowance is paid both to those who leave the company voluntarily and to those who are forced to depart, such as workers reaching the age limit. Traditionally the allowance has been given in a lump sum, but, as the table indicates, by 1978 37.9 percent of Japanese companies were offering either pensions or a combination of pensions and lump sum allowances. The combined allowance system is especially popular with very large companies. In over three-

Table 5. Ratio of Job Openings to Job Applicants by Age as Registered at Public Employment Agencies, 1960 to 1980

Year	Total	<19	20-24	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64	65+
1960	0.66	0.72	0.67	0.71	0.84	0.56	-----0.27-----	-----	-----	-----0.07-----	-----	-----
1965	0.62	1.57	0.59	0.63	0.63	0.57	-----0.80-----	-----	-----	-----0.08-----	-----	-----
1970	1.63	5.06	1.31	1.83	2.14	1.94	1.47	1.10	-----	-----0.36-----	-----	-----
1971	1.19	3.65	0.93	1.49	1.78	1.46	1.20	0.82	0.57	0.23	0.15	0.07
1972	1.57	4.77	1.19	1.88	2.40	2.10	1.74	1.32	0.98	0.37	0.24	0.09
1973	2.26	7.42	1.70	2.36	3.29	2.98	2.58	2.14	1.64	0.75	0.51	0.16
1974	1.14	4.21	1.01	1.19	1.62	1.43	1.15	0.92	0.70	0.35	0.20	0.06
1975	0.65	2.78	0.70	0.75	1.06	0.92	0.68	0.47	0.32	0.15	0.08	0.03
1976	0.72	2.89	0.83	0.82	1.17	1.06	0.85	0.56	0.38	0.18	0.09	0.03
1977	0.57	2.19	0.68	0.65	0.88	0.80	0.64	0.42	0.31	0.15	0.08	0.03
1978	0.63	2.24	0.82	0.76	0.94	0.91	0.75	0.47	0.34	0.16	0.09	0.03
1979	0.82	2.81	1.09	0.95	1.08	1.13	1.01	0.68	0.51	0.26	0.16	0.05
1980	0.77	-----1.40-----	-----	-----	-----0.92-----	-----	-----	-----0.58-----	-----	-----	-----0.17-----	-----

Source: Japan Ministry of Labour, Report on the Employment Service, various years

Table 6. Private Retirement Pay System in Companies with 30 or More Employees

	% with a System	% with Lump Sum Payment	% with Pension	% with Both
1966 - All Sizes	82.8 (100.0)	86.5	0.1	13.4
1968 - All Sizes	92.4 (100.0)	70.6	1.2	28.2
1971 - All Sizes	90.8 (100.0)	71.3	1.5	27.2
1975 - All Sizes	90.7 (100.0)	67.1	13.2	19.7
1978 - All Sizes	92.2 (100.0)	62.1	16.4	21.5
1,000+ Employees	99.9 (100.0)	37.7	8.5	53.8
100-999 Employees	97.9 (100.0)	53.8	17.8	28.3
30-99 Employees	89.6 (100.0)	66.7	16.0	17.3

Source: Japan Ministry of Labour, General Survey on Wages and Working Hours System, various years

quarters of the companies using the combined system, workers can choose a lump sum alone, and they often do so. In contrast, in the United States about half of all private employees are covered by a private pension plan, and lump sum allowances are rare (United States Joint Economic Committee, 1980, p. 16).

The calculation of retirement allowances in Japan is based on length of service and wage rate at the time of separation. Because wages are also determined by educational level and whether the job is white collar or blue collar, these factors enter indirectly into the computation. There are separate formulas for those leaving voluntarily and those leaving involuntarily, but because the focus here is on retirement we will concentrate on the larger benefits awarded to the latter.^{2/}

The best way to understand recent changes in the calculation

Table 7. Ratio of Retirement Benefits to Final Regular Monthly Salary in Companies with 1,000 or More Employees

Years of Service	Age	1971	1975	1977	1979
<u>A. Male, College, White Collar</u>					
20	42	24.1	21.5	21.5	20.7
25	48	33.9	30.7	29.9	28.9
30	53	42.8	39.6	39.3	37.9
32	55	45.4	42.1	40.7	39.5
<u>B. Male, High School, White Collar</u>					
20	38	23.4	20.8	20.9	20.4
25	43	33.0	29.4	28.9	28.2
30	47	41.6	38.0	37.5	36.3
35	52	46.9	43.4	41.9	40.6
38	55	49.7	46.5	44.0	43.2
<u>C. Male, Junior High School, Blue Collar</u>					
20	35	21.4	18.5	19.6	19.4
25	40	29.5	26.5	27.7	27.2
30	44	38.2	34.8	36.2	35.0
35	49	43.8	39.4	41.5	40.5
41	55	50.6	44.2	47.0	46.0

Source: Japan Central Labour Relations Committee, Survey on Retirement Benefits, Retirement Age, and Pension, various years

of retirement allowances is to measure the allowance in terms of its ratio to the final regular monthly salary. Table 7 shows the allowance for male university-educated and high school-educated white collar workers at different ages and durations of service, as well as for male junior high-educated blue collar workers. This table is a model of retirement allowances based on results from a survey of companies with over 1,000 employees and a very large capital endowment. In cases where a pension is offered in addition to a lump sum payment, the sum of the present value of the pension and the lump sum payment is used in computing the ratio of retirement allowance to final regular monthly salary.

Throughout the 1970s, there has been a decline in the ratio, as employers have faced larger and larger retirement allowance bills. This reduction has been accomplished through negotiations with labor unions in which the increase in the monthly base amount used in the calculation of retirement benefits has not kept pace with the increase in regular monthly wages. Thus, the retirement allowance when compared to final monthly wage has been declining.

It should be noted that employees of smaller companies receive smaller allowances. For example, in 1978 in companies using the lump sum system only and with 30 to 99 employees, the allowance for college-educated males after 30 years of service and at age 53 was only 22.8 times their final monthly wage, as opposed to a ratio of 34.8 for employees of companies with more than 1,000 employees.^{3/} So workers in large companies, who have received relatively high wages throughout their careers, also do better when it comes to retirement allowances, although they may be forced to retire earlier than workers in small companies.

As mentioned earlier, paying the retirement allowance in the form of a pension is growing in popularity with companies, though not necessarily with the individual workers. On average, a combination of lump sum and pension results in a higher benefit (Murakami, 1979), but receiving the allowance in a lump sum has tax advantages for the individual, plus recipients often have very specific plans for the immediate expenditure of the allowance, e.g., for building a house or holding a wedding, in addition to providing daily living costs. Furthermore, in almost 90 percent of the cases, the pension is offered for a limited time only, i.e., it is not a lifetime pension. The most common benefit period is 10 years (Japan Ministry of Labour, General Survey on Wages and Working Hours System, various years), so receiving the lump sum is more attractive to many workers.

In order to make pensions more attractive, some companies are beginning to offer cost of living increases during the fixed period. Another means of encouraging workers to choose pensions is to restrict reemployment opportunities if the lump sum is chosen (Ashai Evening News, May 18, 1981). The latter measure may seem unfair, but it may be a reasonable financial compromise given the dual pressures on companies to let employees work to older ages and to maintain retirement benefits.

As increasing numbers of workers step forward to claim their retirement allowances whether at age 55 or at age 60, companies must have a means of spreading the financial burden over time. There would appear to be a strong incentive to them to extend the benefit period beyond 10 years, while keeping the present value constant or even increasing it slightly to make the extended pension more palatable to workers. Although such a measure would impose some short-run hardships on retirees, it is likely that in the future more support for them will be available from public pensions, the topic to which we turn next.

B. Public Pensions

Virtually all Japanese are covered by some type of social insurance or welfare system.^{4/} Participation in the Employees Pension System, founded in 1941, is compulsory for companies with at least five employees. All other Japanese are covered under the National Pension System, which was set up in 1959 and relies on a 50 percent contribution by the government, but provides much lower benefits due to its relative immaturity.

The Employees Pension System is funded through equal contributions of employer and employee that amount in total to 9.1 percent of males' earnings and 7.3 percent of females' earnings. (In the United States the current tax rate is 12.26 percent total for either sex.)

Under the Japanese Employment Pension System, men are eligible for benefits at age 60 and women at age 55, as opposed to age 65 for both sexes in the United States. Annual benefits are calculated by multiplying the number of years of coverage times a flat amount and then adding one percent of average lifetime earnings. As in the United States, benefits are reduced if the beneficiary is working. There are automatic cost of living adjustments, and the flat amount used in the computation has been increasing more rapidly than wages and prices (Simmons, 1978). The average annual benefit paid in 1978 was 992,494 yen or approximately \$4,725, 50 percent greater than the average United States Social Security payment that year (Holden, 1980). The wage replacement rate at maturity will be higher in the Japanese system than in the United States system--52 versus 40 percent (Campbell, 1980). So workers under this program will be comparatively

well off, once the system reaches maturity and once the employees reach the age of eligibility. In fiscal year 1978, there were fewer than 2 million beneficiaries out of 14 million people age 60 and over in Japan (Japan Office of the Prime Minister, Japan Statistical Yearbook, 1980 p. 536), so the system does not yet play a major role in the support of retirees.

Unlike the United States, there are no provisions for early retirement with actually reduced benefits. Almost 90 percent of all beneficiaries of the United States Social Security System in 1978 had opted for early retirement between the ages of 62 and 65 (United States Joint Economic Committee, 1980, p. 9). A recent proposal by the Reagan Administration to discourage early retirement by cutting back on benefits met with great public resistance. The proposal was a result of concern over the fiscal viability of the system, a concern that in the short run is caused by general economic conditions.

In the long run, however, both the United States and Japan will have a common difficulty in maintaining their public pension systems, as the population in each country ages. The ratio of beneficiaries to contributors in Japan will increase from 1:25 in 1977 to 1:4 after the year 2000, and a large increase in the tax rate will be necessary to maintain the wage replacement rate (Simmons, 1978, p. 28). It would be politically difficult to reduce benefits in either country, and increases in the tax rates will not be welcomed.

A third alternative is to gradually raise the age of eligibility for benefits, but employment opportunities must be provided for the older workers. Japan currently has trouble providing sufficient employment for its workers until age 60, the current age of eligibility for males in the Employment Pension System. The United States has had greater experience in continuing the employment of older workers in their regular jobs, but current private and public pension systems provide incentives to early retirement.

In both Japan and the United States raising the age of eligibility would serve two purposes: 1) increasing the number of people working and thus contributing to the pension system and 2) decreasing the number of people retiring and thus drawing benefits from the system.

IV. The Future

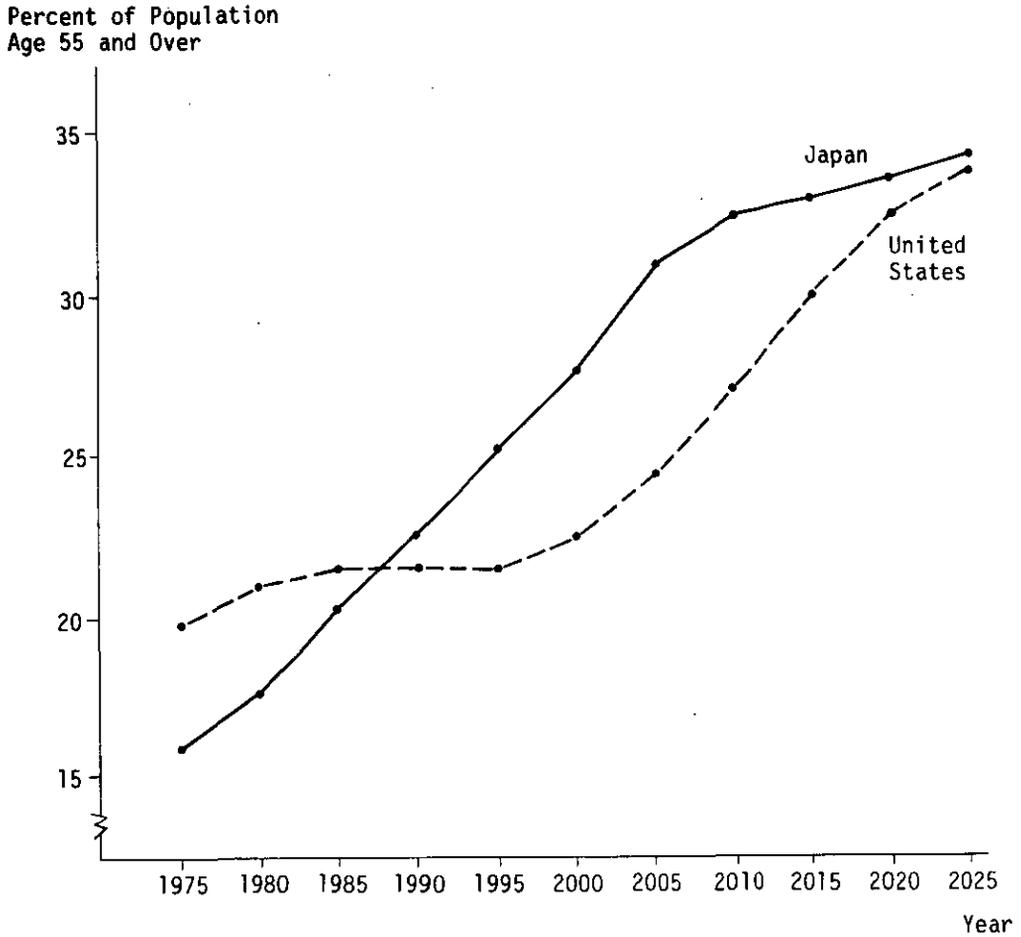
As has been reported here, the employment and retirement circumstances of older workers in Japan have changed considerably in the past 15 years and, given the rapid aging of the future, will undoubtedly change even more. Japan will not be alone in this experience. Figure 1 shows the proportion of the population over age 55 in Japan and the United States from 1975 to 2020. Both projections are based on assumptions of a continuation of current below replacement fertility. Until 1990 the United States will have the greater proportion over 55, but the rapid aging of the Japanese population will give it a higher proportion from 1990 until 2020. Shortly after 2025 the curves should cross again, as the weight of the enormous postwar United States baby boom is felt.

The current problems facing older workers will no doubt be compounded as the proportion in the 55 and over group doubles in Japan and reaches one-third of the total population. The recent report of the Japan Employment Policy Research Council (1981) outlines the magnitude of the difficulties facing Japan. Its projections of labor force supply, which are based on the same population projections used here (Kuroda, 1979), indicate that when compared with projected labor demand there will be an excess supply in the year 1990 of 1.6 million workers in the 55 to 59 age group and 1.2 million workers in the 60 to 64 age group. Clearly Japan has a gigantic task ahead in providing employment opportunities and retirement allowances for these older people.

It is expected that the labor force participation rates of those 55 to 59 will increase in the future, as more companies raise the age limit. On the other hand, the participation of those 60 to 64 will decline, given a further decline in the relative importance of the agricultural sector, where people work to older ages, and given improvements in public pension benefits. In the United States and other more developed countries there has been a negative relation over time between labor force participation of older workers and the availability of public pensions.

Figure 2 plots labor force participation rates for males 65 and over against the percentage of gross domestic product spent on pensions for various more developed countries in different years.^{5/} It

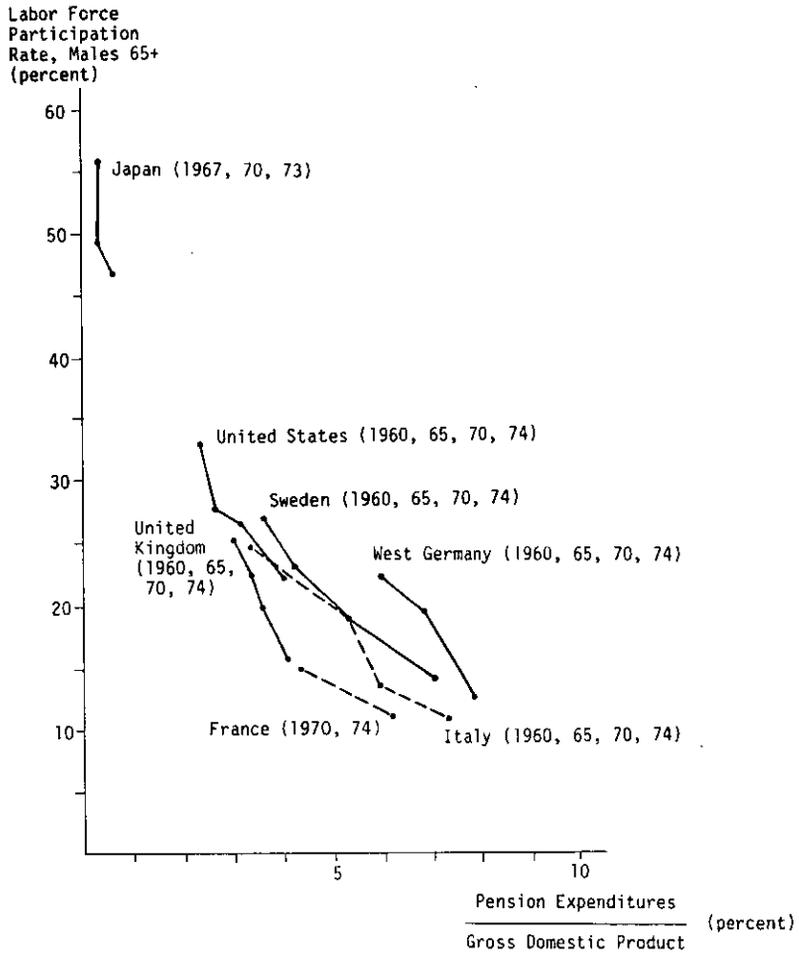
Figure 1. Percent of Population, 55 Years and Older, Japan and the United States, 1975 to 2025



Sources: Japan--Kuroda (1979), middle projection in which the total fertility rate declines to 1.65 in the year 2025.

United States--U.S. Bureau of the Census (1978) for 1975 population. U.S. Bureau of the Census (1977) for 1980 to 2025. The projections are based on a total fertility rate of 1.7.

Figure 2. The Relation between the Ratio of Pension Expenditure to GDP and the Labor Participation Rate



Sources: Pension Expenditures--International Labour Office, The Cost of Social Security, 1976 and 1979.

Gross Domestic Product (New System of National Accounts) --United Nations, Yearbook of National Accounts Statistics, 1977 and 1978.

Labor Force Participation, European Countries--Organization for Economic Cooperation and Development, Demographic Trends 1950-1990, 1979.

Japan--Japan Office of the Prime Minister, Annual Report on the Labour Force Survey, 1980.

United States--U.S. President, Employment and Training Report of the President, 1979.

Table 8. Labor Force Participation Rates by Age and Changes by Cohorts for Japanese Males

Year	50-54	50-59	60-64
1960	94.9%	88.9%	81.4%
		-4.9	-6.1
1965	95.0	90.0	82.8
		-3.8	-8.5
1970	95.8	91.2	81.5
		-3.6	-11.8
1975	96.2	92.2	79.4
		-5.0	-14.4
1980	96.0	91.2	77.8

Sources: Japan Office of the Prime Minister, Annual Report on the Labour Force Survey, 1970 and 1980

is difficult to identify cause and effect in this relationship and to ascertain the independent influence of other variables on labor force participation and pension expenditures. However, this negative relation is further substantiated by micro-level studies for the United States, such as Boskin (1977) and Quinn (1977), which show that the availability of private and public pensions have been an important determinant of early retirement. Thus, if Japanese workers are similarly affected by economic factors, then one would expect that in the future labor force participation will decline over age 60, the age of eligibility for the Employment Pension System benefits.

Evidence that there is an increasing trend in withdrawal from the labor force after age 60 by Japanese males is presented in Table 8. Not only have labor force participation rates for the 60 to 64 group fallen over time, but the rate of retirement for specific cohorts has increased. For example, males ages 55 to 59 in 1960 were ages 60 to 64 in 1965, and the labor force participation rate for the group

declined 6.9 points over the period, from 88.9 percent to 82.8 percent. The difference for the group 55 to 59 in 1975 and 60 to 64 in 1980 was 15.6 points. There is no clear trend for the transition from the 50 to 54 group to the 55 to 59 group, which in part reflects changes in the age limit set by companies.

There is a great challenge facing Japan. Changes in labor force institutions will be required to accommodate the dramatic aging of the population. An economy that in the postwar period has been dependent on infusions of young workers must learn to make efficient use of its older workers. Another very important aspect of preparing for the future is already under way, and that is the education of the public. It seems that hardly a day goes by in Tokyo without some article on the aging of Japan appearing in the press. With some indication of what faces them, Japanese workers will be able to make plans for their changing financial circumstances.

We do not want to imply that all older Japanese people will lead miserable lives in the future. Some will be rich and others poor; some will find work and others will not. It will be more difficult though. As the influence of the seniority-wage system wanes, as private retirement benefits are cut back proportionately, and as parents have fewer children (who live farther away) to care for them in their old age, the public will have to play a larger role in caring for the elderly. Very important, of course, will be overall economic growth. The collection of revenues to support the older population that is not working will be easier the faster the economy is growing, and faster growth will also bring more job opportunities for the millions who want to continue working.

Notes

- 1/ For an analysis of recent changes in the age-earnings profile in Japan, see Martin (1982). As in the United States, relative wages of different age groups of workers seem to be affected by relative cohort size. Consequently, during the 1960s and 1970s, the United States with a relative abundance of younger workers saw an increase in the relative wages of older workers, whereas Japan with a relative abundance of older workers saw an increase in the relative wages of younger workers. In the early 1970s, the age-earnings profiles of the two countries were almost identical.
- 2/ For an explanation of the two types of separation allowances, as well as a discussion of funding of private retirement benefits, see Murakami (1979).
- 3/ The data source is Japan Ministry of Labour, General Survey on Wages and Working Hours System, 1978. The results for companies with more than 1,000 employees are different from those cited in Table 7, because the survey cited here has a larger sample that includes firms with smaller capital endowments.
- 4/ For a more detailed description of Japanese public pension systems, see Holden (1980).
- 5/ The number of observations are limited, because changes in national accounts systems have introduced inconsistencies into time series data.

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