

Interview with Dr. Atsushi Seike, President of the Promotion and Mutual Aid Corporation for Private Schools of Japan (PMAC)

# Elderly Workers – Key to Achieving a Sustainable Super-Aging Society in Japan

By Japan SPOTLIGHT

What will Japan's super-aging society look like in the future? This will depend on the policies adopted from now on and the private sector's adjustability to the aging and depopulation of Japan. As aging in Japan continues in parallel with a declining birth rate, depopulation will be the eventual outcome, resulting in a labor shortage that could hamper economic growth. To avoid this, Japan will need to try to increase its labor supply. Among the ways of achieving this, encouraging elderly people to continue to work longer, even after their retirement at 60 or 65, would be at least a partial solution. As we are now the beneficiaries of longer lifespans with better health thanks to advances in medical science, why should we not take full advantage of these aging but still healthy workers today?

Dr. Atsushi Seike, a distinguished labor economist and former president of Keio University, kindly responded to our questions in the following interview.

(Interviewed on March 27, 2019)

## Introduction – Overall Picture of the Issue

**JS:** The aging of societies is one of the key issues today in global public policy discussions, and will be at the center of G20 discussions in 2019 in Osaka. To achieve sustainability in Japan's aging society, we will need to ensure the sustainability of our social welfare system. But on the other hand, we should discuss the possibility of enhancing the employability of elderly people, given that our enormous public debt will not allow us to increase social welfare expenditure very significantly. Would you agree with this policy direction?

**Seike:** Yes. I think that is exactly what we will need in terms of social sustainability as well as personal happiness. We will need to build a society in which anybody willing to work and competent could fully utilize his or her capacity. That would lead not only to the sustainability of society but also to personal content. Japan is now becoming a super-aging society that no other nation has ever experienced. The percentage of the population over 65 years old has already exceeded 28% of the total. This is higher than in any other country. This ratio will reach one-third in the middle of the 2030s.



Dr. Atsushi Seike

When a college student today becomes about 65 years old, namely in the 2060s, the ratio will be rising to around 40%. This phenomenon also means that the ratio of the much older people among the population aged over 65 is also rapidly increasing. The proportion of the 65-74 age group to the age group of those over 75 is now around 1:1, but by 2025 this proportion will be 2:3. This will be due to the fact that people in the baby-boom generation born from 1947 to 1949 will have turned over 75 years old.

Looking into the future further, around 2060 when 40% of the total Japanese population will be over 65, that same ratio will be 1:2. Thus, we will see a significant rise of the super-aged population. In such a super-aging society we will have two issues.

The first is rising social security costs. In order to reduce such costs per capita, it will be crucial to encourage anybody willing and able to work to continue to work regardless of age and support the social security system. The second is the decline in the size of the workforce. Assuming that we will need to shorten working hours and that raising value-added productivity at very high speed will not be easy to achieve, a significant decline in the labor force would end in a shrinking economy. So the aging population would be a serious constraint on economic growth on the supply side. It also leads to a large decrease in consumption in the economy. Since retired people would consume from their pensions, which will be half of the

average earnings of workers who are paying premiums, their consumption will significantly decline. This will be another constraint on economic growth on the demand side. Enhancing the employability of elderly people would therefore be a good solution to mitigate these two constraints.

Another key issue from an individual's perspective on aging is about how to maintain a sustainable life in a super-aging society. At this moment, statistically the expected remaining life span for a Japanese at the age of 65 would be about 20 years for men and 24 years for women. This means at the retirement age of 65, in general, you had around 40 years of working life and will have 20-24 years of life in retirement. With this balance, it would be difficult to have a financially comfortable life after retirement. You would need to continue to work a little further, such as until the age of 70.

Thus, in the light of social needs and an individual's needs, we will need many more elderly people to work longer and enhancing their employability will be a key to achieving the success of an aging society. One advantage for Japan in this regard would be the strong willingness to work of many aging people. A large portion of older people in Japan would prefer to work as long as they are in good health and connected with society. Realizing a life-long active society in which the willingness and ability of older people can be fully realized would be a relevant policy goal for Japan in this regard.

## Possible Employment System Reform

**JS: To enhance the employability of older people, what do you think would be the necessary reforms to the employment system in Japan?**

**Seike:** First of all, it will be important to raise the mandatory retirement age to 65. The lower limit for mandatory retirement has been lifted gradually under the Japanese Law Concerning Stabilization of Employment of Older Persons and 60 is now the lowest retirement age defined by law. This law also makes it obligatory for an employer to keep anybody employed in some form, such as by raising the mandatory retirement age to 65 or reemploying those who retire at 60 until they are 65, if they want to continue to work after age 60.

The majority of the large Japanese enterprises still keep the mandatory retirement age at 60, but I believe they must raise it to 65. From 2025, the provision of public pensions for employees will begin at the age of 65. Unless the mandatory retirement age and the age for pension eligibility are connected, consistency between the employment system and public pension system will not be achieved.

So raising the lower limit of the mandatory retirement age to 65 is a minimum requirement. With this, you would have to continue to work until 65 and after that we should have as many alternatives as possible, such as continuing to work part-time in the same company or working as a freelance with more flexibility. There could be many people who, having worked hard until the age of 65, will feel like doing whatever they would like to do. In meeting their desires, we will need an employment system fixing the retirement age at 65 and providing more flexibility in continuing to work beyond that age.

**JS: What do you think about total abolition of the retirement age, as in the United States?**

**Seike:** It is true that in the United States the Age Discrimination in Employment Act (ADEA) prohibits a mandatory retirement age in employment, but employers there are not suffering any disadvantages from this law. There are mainly two reasons for that.

The first is that in the US an "employment at will" principle prevails. An employer is allowed to fire any employee it finds redundant under this principle. In Japan, we have the principle of prohibiting abusive use of dismissal rights. Apart from dismissal as a penalty, you need authentic and convincing reasons for dismissal, and even if you have those reasons you need to prove that all means and efforts to avoid dismissal, such as working hours, have been exhausted. You also need to demonstrate that there is a rational and objective reason for selecting the employees to be dismissed. Your personal opinion about those employees is not to be taken account of. Lastly, you need to get an agreement on the dismissal between management and labor unions or representatives of the employees. So in Japan, dismissal is considerably difficult. Therefore, mandatory retirement practice at a certain age is a useful means for a Japanese company to adjust employment to economic and business situations. If business slows down, a company would need to reduce employment. In this situation, a company would not replace retiring employees. This works very well as an adjustment process, and for employees as well ensures job security until the mandatory retirement age. In this light, it would be difficult in Japan to eliminate a mandatory retirement practice.

The second reason is that in the US most people retire at the age of 62 without being asked to do so. This is made possible because the public reduced early benefit provision begins around that age and also corporate pension systems are devised to maximize the amounts due to be paid on retirement at that same age. Here employees expect a retirement allowance by working until the age of retirement. This practice creates a mindset for workers to retire at

such an age. It is true that there are certain merits of the ADEA, but its introduction into Japan would damage the stability of employment.

**JS: If elderly people's working styles were diversified as they choose to continue to work after the retirement age, would mid-career recruitment or reemployment increase, and Japanese management styles change accordingly? For example, would the seniority-based salary system be replaced by a performance- or expertise-based salary system?**

**Seike:** The seniority-based salary system is already changing. Looking at the wage curve profiles of average workers since the 1980s in Japanese government statistics, it has been continuing to flatten. This is encouraging for promoting the employment of older people, as a company's personnel costs for salaries would rise significantly if the retirement age is prolonged under the seniority-based salary system.

However, in the current situation, if an employee reaches the mandatory retirement age of 60 and reemployed until 65, his or her salary would be 30-40% less than the one at retirement. This would be a disincentive to work. Therefore, I would suggest curbing a rise in wages starting while employees are in their 40s, making the current wage curve profile even flatter.

It is true that the seniority-based wage system works well during the first 10 years of working life, as before becoming a full-fledged employee, young and inexperienced workers in general need to catch up with their seniors by receiving on-the-job training that their seniors usually provide them with and a salary raise by seniority can be justified by their progress in job performance year after year at a relatively high speed. But after being a full-fledged employee, seniority-based salary raises would need to be more moderate.

It is generally considerably difficult to evaluate your working performance objectively, apart from jobs linked directly to sales. For example, it would be not fair to compare the job performance or competency of an employee assigned to a job that happens to be highly profitable and that of another assigned to a difficult job to restore a structurally less competitive business activity. So I do not think the seniority-based salary system will cease to exist completely. But the steepness of the seniority wage profile would be flatter starting from one's late 30s or 40s than now.

We have an employment system in Japan of which we should be proud. I think the Japanese method of simultaneously recruiting new graduates is an excellent system that could be promoted worldwide.

Thanks to this system, Japan enjoys low youth unemployment. In parts of the world where youth unemployment is high, it is economically and socially a big issue. In Europe, for example, young people start looking for jobs after leaving school or university, and they are statistically defined as unemployed. Companies also recruit those with experience for vacant posts that occur spontaneously. So the recruitment of youth is less prioritized and that also prolongs their periods of unemployment. But in Japan, young people are able to find jobs while they are still at school, and the new graduate recruits in Japan will undergo on-the-job training in a company and be trained under human resources development programs. They can master basic working skills at the initial stage of their professional life in their company. I think this is an excellent system that should be preserved in Japan.

## **Social Security Policies Consistent with Elderly Labor Force**

**JS: What would be the crucial social security policies to encourage elderly people to work longer?**

**Seike:** Poor health would be the most important factor preventing older people from working longer and prompting early retirement. So the most important social security policy concerning the public health insurance system to encourage people to work longer would be to promote good health by preventing lifestyle-related diseases through precautionary care or promoting vaccinations and providing regular consultations on meals and physical exercise.

Another factor affecting the incentive to work would be a public pension system that could discourage them from working longer. A typical example in Japan is the public pension for employees to discourage those still working. The amount of pension benefits is cut in accordance with the earnings received by those who continue to work over 65, and thus it penalizes them for doing so. In cases where their earnings exceed a certain amount, the total amount of benefits has to be cut.

At this moment, the Japanese government is trying to encourage older people to work longer by committing to paying more in pension benefits to those who postpone receiving pension benefits than the amount paid at age 65. But with the public pension scheme for those still working which I described above, if you work hard after 65 and the pension due to you is cut in accordance with your earnings, you have less extra increase in pension or even cannot expect any extra increase in pension at all at the age of 70 even with this policy to encourage the aged to work longer. Thus, the old age

pension for those still working would nullify the effect of the good government policy to encourage postponing receipt of pension benefits and it needs reconsideration.

## Capacity Building for Elderly People

**JS:** In order to avoid a possible productivity decline by the elderly labor force then, will we need better development of human resources or lifelong education?

**Seike:** There are two issues here. One is to take advantage of aged workers' capacities. There are many top SMEs in Japan with high competitiveness in niche sectors. They rely on skills, knowledge, long experience and sophisticated services to take care of their customers' needs, all of which could be provided by elderly workers. High value-added, order-made products or services would be what older workers excel in producing. Given that industries in Japan are pursuing higher added value, I think the key to raising our labor productivity is utilizing these older people's capabilities.

The other is to invest in older people's health to keep them fit and prolong their lifespan. We will also need technology to play a supporting role for the elderly when their physical functions decline. A robot suit enabling an elderly person to carry a heavy item would be a good example. The deteriorating eyesight of the elderly could be supplemented by mechanical support. One interesting example is that brain surgeons would be able to continue to work on operations even after their 50s with the help of endoscopes to supplement their poor eyesight or mechanical handles to correct any trembling of their hands. This is how we could continue to benefit from the skills and knowledge of older brain surgeons. We would be able to enhance our labor productivity overall in an aging society by fully utilizing elderly workers' competencies in producing higher added value with the use of technologies.

## Helping the Aged Achieve Good Financial Management

**JS:** On a different note, could you talk about financial gerontology, which is helping the aged with worsening cognitive function in their financial asset management?

**Seike:** In Japan, as we have a practice of paying large lump-sum retirement allowances, the aged often have great amounts of

financial assets. But they are facing the risk of worsening cognitive functions and it is necessary to protect such people's assets. We should not allow them to invest in high-risk assets. The Japan Securities Dealers Association has a guideline in which sales persons of security companies should refrain from selling risky financial assets to their clients over 75 years old. There are two ways to avoid this guideline being an obstacle to financial investment overall for the Japanese economy as well as taking the possible earnings of financial investment from the aged investors. One is to conclude a contract on investments between a financial institution and the elderly before they face any worsening of cognitive function, so that they are assured of certain financial benefits from their investments if or when their functions worsen. Typically they are private pension plans and mutual funds. The other is to have financial institutions learn from a medical doctor about the cognitive functions of potential elderly clients and then decide in accordance with medical criteria what conditions they should stipulate in their contracts with them. In the future, it may be possible to connect a financial institution with a medical clinic, such as through the Internet. I hope this study of gerontology would lead to effective use of older people's assets in order to realize a wealthier life for the elderly or investments that can enhance the overall economy.

## Coping with the Aging Population in Asia

**JS:** There is a high risk of significantly large-scale aging in Asia, in particular in China. Could the lessons of Japan be useful for these countries?

**Seike:** Yes. If Japan is successful in achieving a life-long active society in which the will and ability of older people are fully realized, it would be a good model for other Asian nations. This would be a very important Japanese contribution to Asia. The aging of societies is a common issue, in particular for Japan, South Korea and China, with respective birth rates of 1.45, 1.2 and 1.6. All three face depopulation, so it would be productive for them to discuss this common challenge and learn from each other's experience. Pursuing a collaborative path to build up affluent aging societies would be a good subject for a very productive discussion among these three nations, regardless of any political confrontations among them. **JS**

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