

Policies for the Employment of Older Persons in Japan

– A Comparison Between the European Union, United States and Japan –

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Note: In this article, older workers refers to people aged 55 and over, especially those in the 55-64 age bracket.

In November 2001, the Japan Institute of Labour (JIL) invited experts on issues pertaining to the employment of older workers from the United States and four European countries – the United Kingdom, France, Germany and the Netherlands – to participate in workshops and symposia focused on how to achieve a gradual retirement process from the labor market and how to deal with the issue of age in the workplace. I served as the organizer of this event, and presented Japan's policies for the employment of older persons in a workshop. Using the information from that workshop, this paper discusses these policies in Japan from an international perspective.

Aging Population and the Labor Market

1. Rapid Aging of the Population

In January, Japan's National Institute of Population and Social Security Research issued its new population projection for Japan. According to this forecast, the aging of Japan due to such factors as a declining birth rate (the total fertility rate, the annual total of birthrates per woman by age, was 1.36 in 2000) is going to occur at an even more accelerated rate than indicated by past statistics. By about 2010, about one in three people in the total population will be age 60 or older. By 2010, estimates show that Japan will have the highest population of older people – even higher than the European Union (EU).

2. Ever-Tightening Japanese Labor Market

With the stagnation of the economy, the employment situation is becoming increasingly severe. The total unemployment rate (adjusted seasonally) in February 2002 remains high at 5.3%, and the number of employed has fallen for the 11th consecutive month versus the same month in the previous year

(62.48 million people, down 1.04 million). Among the unemployed, the increasing number of those who left their jobs involuntarily is expanding. There is only weak movement in the number of job offers mediated by Public Employment Security Offices, overtime hours and wages.

Given this employment situation, the government issued Comprehensive Employment Measures in September 2001 to take actions aimed at securing stable employment and creating new industries. These included: (1) the creation of employment; (2) a dissolution of the mismatch in the supply and demand for labor; and (3) the establishment of an employment safety net for workers losing jobs and bankruptcies. Concerning the grave employment situation, in October 2001 Nikkeiren (Japan Federation of Employers' Associations) and Rengo (Japanese Trade Union Confederation) issued the "Declaration of Social Consensus on Employment" which stipulated: (1) management will maintain and create employment opportunities, and will limit unemployment, while workers will cooperate in strengthening the business base through such efforts as improving productivity and cost reductions, and will respond flexibly to wage increases; and (2) to maintain and create employment opportunities, Nikkeiren and Rengo will strive to form a consensus on diverse working patterns and work sharing, while labor and management will jointly promote efforts to appropriately allocate work, wages and work hours.

The employment environment for older people is especially difficult. By age group, the total unemployment rate in the 55-64 bracket is high, second only to the 24 and under age group. Given the severe age restrictions deployed when firms recruit personnel, finding a new job is no easy task for middle-aged and older workers. Also, there is a considerable reduction in

wages among such people who do manage to find reemployment.

System of Policies for the Employment of Older Persons

The current employment policies for older citizens in Japan were developed with the political purpose of achieving a society in which motivated, skilled older workers may continue to work until the age of 65, through such measures as reemployment with either their previous or new employer. They are based on: (1) ensuring employment until the age of 65 by raising the mandatory retirement age and introducing other continuous employment systems; (2) supporting and promoting reemployment among middle-aged and older workers; and (3) securing various employment opportunities to suit the diversified work motivation and physical fitness of those looking for work.

1. Fixing the Mandatory Retirement Age at 60 and Continued Employment Beyond 60

In Japan, there is a widely implemented mandatory retirement system which stipulates that the worker's employment contract automatically ends when they reach the mandatory retirement age. This system has two aspects: (1) guaranteed employment until retirement age; and (2) the employment adjustment rule, which is acceptable to employees. (Under an employment tradition that emphasizes the hiring of new graduates in cohort groups, skills more or less decline as workers age, and unless the seniority wage system can be greatly revised, there is pressure from personnel costs. Because retirement rules are not based on individual characteristics, such as skills, but on an evenly applied standard of age, few workers oppose retirement.) The mandatory retirement system is said to have begun at the end of the 19th century, spread from the 1910s

to 1920s, and became established as one of the primary personnel and labor management systems of large companies from the 1920s to 1930s. It was also rapidly adopted by small and medium-sized businesses from the late 1950s, and as of January 2001, more than 90% of companies (91.4% among companies with 30 or more employees) had a mandatory retirement system. (Ministry of Health, Labour and Welfare [MHLW], Employment Management Survey 2001)

For a long time after World War II, the mandatory retirement age was generally 55, but because of the gap between that age and the age at which people could start receiving public pension payments (which at that time was 60), the government made the extension of the retirement age to 60 as one of its employment policy goals in the 1970s. While providing aid measures, the government strongly urged mainly large companies to push back the retirement age. At the same time, there was increasing recognition of this by labor and management, and starting in the late 1980s, there was a rapid push to raise the retirement age to 60.

Legal revisions accompanied the progress being made in pushing back the retirement age, and in April 1998, it became illegal to implement a mandatory retirement age at below 60.

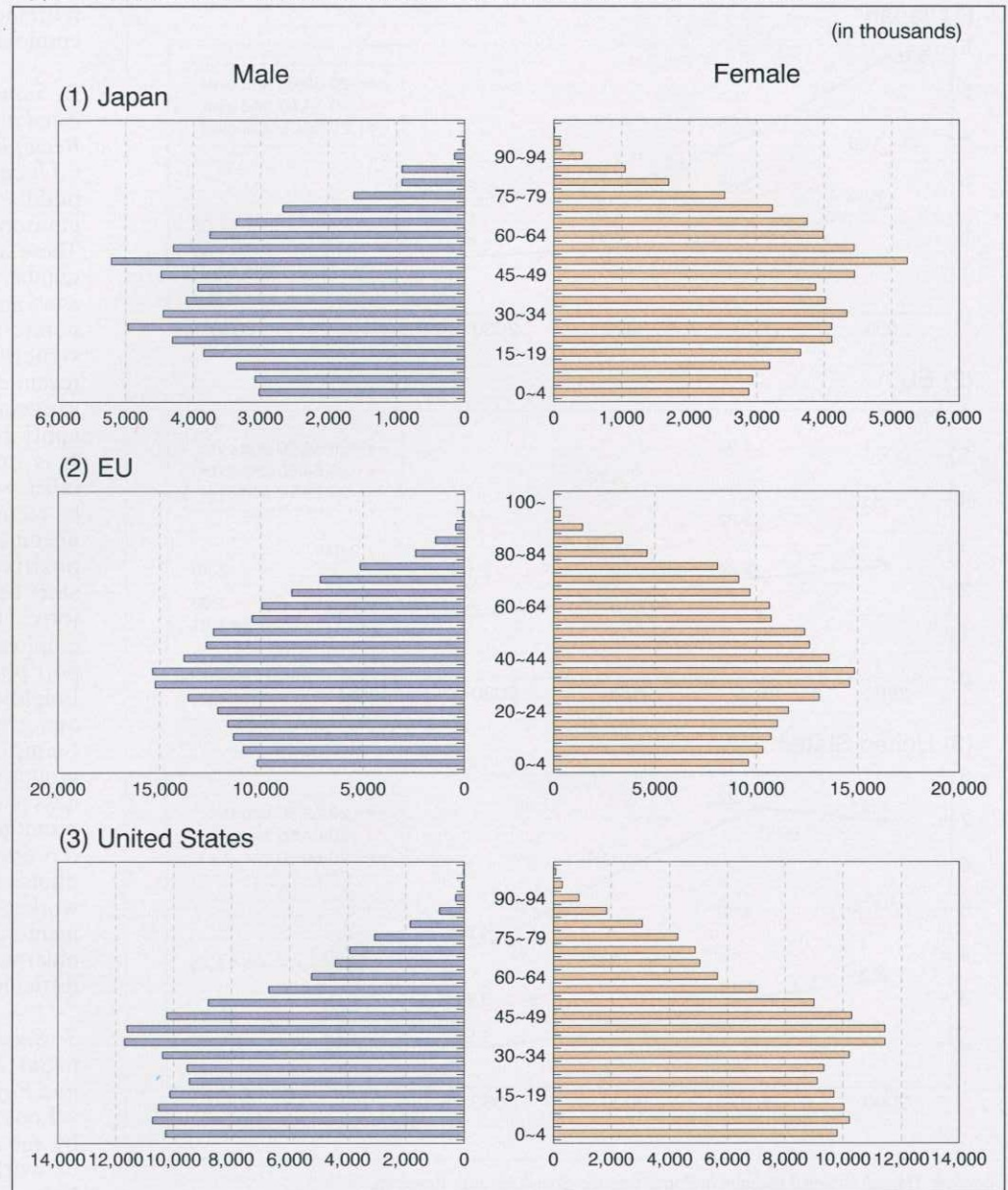
With predictions of the stringency of labor demand and supply balance resulting from the low birth rate and aging society, the age at which individuals are eligible to start receiving public pension benefits will be gradually raised starting in fiscal 2001.⁽¹⁾ A major issue in Japan today is the creation of full-scale employment for people until the age of 65.

However, employment for those aged

over 60 still hasn't really caught on. At only 28%, there are few firms that offer employment until age 65 to all those who wish to continue working. (Employment Management Survey 2001) There are three approaches to employment for people in their early 60s: (1) the 60 plus α approach – to increase α for the purpose of continu-

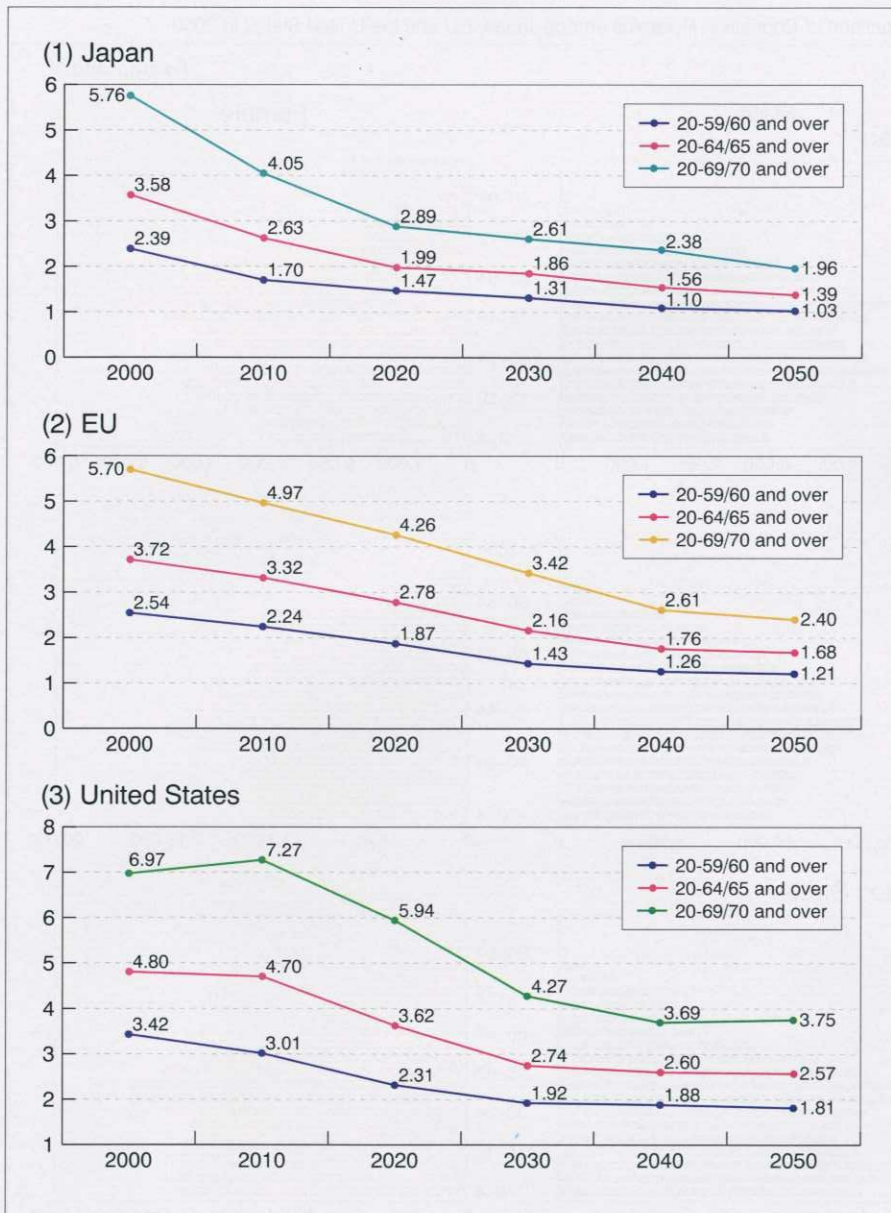
ing employment until 65 with the mandatory retirement age remaining at 60, (2) the 65 minus β approach – to raise the mandatory retirement age to 65, and allow each individual to decide when they want to retire, and (3) an age-free approach. At present, the 60 plus α approach has been widely accepted since there have been no fun-

Figure 1 Comparison of Population Pyramids among Japan, EU and the United States in 2000



Sources: (Japan) National Institute of Population and Social Security Research, "Population Projection for Japan (January 2002)" (EU/US) UN, "World Population Prospects: the 1998 Revision"

Figure 2 International Comparison of Support Ratios
(Working Age Population / Older Dependents Population)



Sources: (Japan) National Institute of Population and Social Security Research, "Population Projection for Japan (January 2002)"
(EU/US) UN, "World Population Prospects: the 1998 Revision"

damental revisions to personnel management systems. Whichever choice is adopted, a framework for continuous employment up to the age of 65 on more favorable terms should be quickly implemented from a wide variety of choices. It would be realistic to aim towards a society of active employment until the age of 65 by around the year 2010 when the "baby boom" generation

born between 1947 and 1949 (in the United States and Europe the baby boom lasted from the end of World War II until the early 1960s, but in Japan it refers to those born in these three years) will be in their early 60s. The government is striving to provide: (1) guidance and detailed advice and support for employers; and (2) aid measures for employers that have raised the

retirement age or introduced continued employment schemes.

2. Support and Promotion for Middle-Aged and Older Workers Seeking Reemployment

Once employment is interrupted in middle and old age, the reemployment environment can be especially severe. There are concerns about an increasing number of unemployed among middle-aged and older workers due to the economic slowdown and the progress of structural reforms, as indicated by recent efforts in the electronics industry to encourage large numbers of people to apply for early retirement voluntarily. It is important that middle-aged and older workers who have lost their jobs be reemployed with as short a period of unemployment as possible. To this end, positive job-seeking support should start before they leave their original jobs. In addition to requesting that employers prepare reemployment support plans whenever necessary, Public Employment Security Offices pay various grants to employers who devise reemployment support measures, to groups of small and medium-sized businesses that have developed systems to promote the reemployment of workers covered by reemployment support plans, and to employers who accept workers who are covered by reemployment support plans or middle-aged and older workers who are otherwise having difficulty finding reemployment.

3. Securing Employment Opportunities to Suit Diversified Work Motivation and Physical Fitness

Looking at the employment situation by age group, the number of people out of work increases greatly around the key age of 60 (the general age of mandatory retirement), while the number of full-time workers decreases significantly. After 60, there is an increase in self-employed workers, family workers and workers in part-time employment, showing that employment patterns in old age are diversifying. Older persons generally desire to work until the age of 70 if they can find employment, but for health and various other reasons, it is difficult for workers over 60 to work under the exact same conditions they

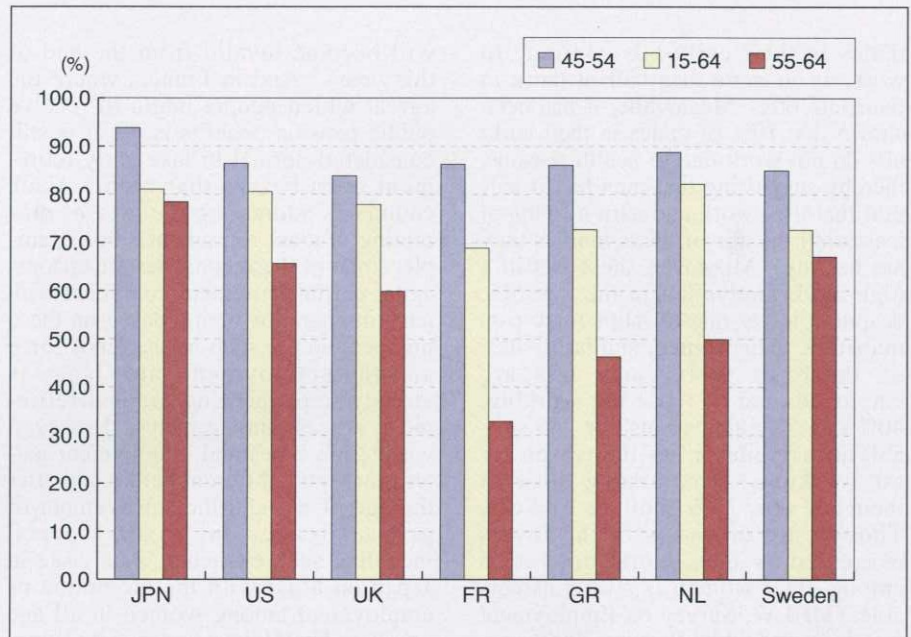
worked under before the age of 60. Thus, it is important that, in securing employment opportunities until the ages of 65 and 70, we develop diverse employment patterns not necessarily limited to full-time work, but including part-time work, home-based work and self-employment.

Efforts are also being made to cultivate Silver Human Resources Centers which offer temporary, short-term and other kinds of work closely linked to the daily life of their local communities to older workers in the process of retiring. They now have more than 600,000 registered members and are continuing to grow. ⁽²⁾

4. Efforts to Realize a Society in Which People Can Work Regardless of Age

Recent years have seen strong efforts in Japan aimed at achieving a society in which people can work regardless of age. First, the Employment Measures Law was amended to stipulate that employers are required to avoid age discrimination when recruiting and hiring personnel (effective October 2001). The "Guidelines to Abolish Age Discrimination" were then enacted to ensure the efficacy of this law. The aim is to abolish age restrictions when recruiting and hiring through the publicity of the Guidelines and guidance on the reduction of recruitment age stipulations at Public Employment Security Office counters. However, age restrictions may be applied when the recruitment and hiring of workers by an employer fall under one of 10 exceptions, and when the employer has explained this fact to a public or private job introduction agency and to the job applicants. (One of these exceptions, for example, states: When persons below a specific age are recruited and hired in situations where workers, even if hired, could not sufficiently manifest their abilities and would retire before the necessary job skills have been acquired, in connection with the mandatory retirement age or the maximum age for continued employment.) These guidelines do not include any penal provisions. The government feels, however, that they are of considerable significance in that they take a step towards age-free employment and they will consider making further

Figure 3 International Comparison of Employment Rates among Males



Sources: (Japan) "Labour Force Survey 2000," Statistics Bureau, Ministry of Public Management, Home Affairs, Posts and Telecommunications
(EU) Eurostat, "Labour Force Survey"
(US) US Department of Labor, "Employment & Earnings"

developments in this area by looking at its efficacy in the future.

The "Expert Council on Achieving a Society in Which People Can Work Regardless of Age," comprised of a wide range of experts, including labor and management representatives, has been formed within the MHLW. It will spend two fiscal years, 2001-2002, studying this issue and compiling proposals from a broad range of perspectives.

Features of Japanese Policies

1. The Special Importance of Promoting Employment Among Older Persons in Japan

A comparison of the population pyramids in Japan, the United States and Europe in 2000 shows that the bulk of the Japanese population are in their 50s with only a small number of young people. In the United States, on the other hand, the population is comprised of large numbers of both young people and middle-aged people. The EU lies somewhere in between, with a large number of people in the middle-age range. (Figure 1)

The support ratio is a measure often

used in relation to aging and economic activity. It is calculated by dividing the working age population by the elderly dependent age population. It expresses how many workers it takes to support one older person. The support ratio varies drastically depending on whether the working age used to calculate it is set as maximum 60, 65, or 70. If we compare the support ratios in Japan, the EU total and the United States, we clearly find that because the population is aging at such a rapid pace in Japan, it is even more important here than in the EU or United States that as many older persons as possible are shifted from "those needing support" to "those providing support." At various international conferences held in recent years, many "active aging" proposals have been made, aimed at getting older persons involved in society in various forms, including employment. Japan needs, even more than other countries, to take the initiative in pursuing such efforts. (Figure 2)

Indeed, older persons in Japan have an extremely high motivation to work, creating an environment more conducive to achieving active aging than in other countries. Two in every three

males in their early 60s continue to work, as do more than half of those in their late 60s. Meanwhile, it has been shown that 10% of males in their early 60s do not work due to health reasons, thereby suggesting that men feel it natural that they work and earn a living at least until the age of 65 as long as they are healthy. Moreover, there is still a high work motivation in the late 60s, despite a lower rate of labor force participation. For women, similarly, 40% of those in their early 60s are employed, and of those not working, 40% cite "health reasons" or "no suitable jobs available" as the reason for not working. Even among those in their late 60s, 30% continue to work. Though not on par with the levels expressed by men, work motivation among older women is still considerable. (MHLW, Survey on Employment Conditions of Older Persons 2000)

By international standards as well, the work motivation among older persons in Japan is high. For example, an international comparison of employment rates among men aged 55-64 shows that the employment rate in Japan is much higher than those in the United States and European countries. (Figure 3)

2. Gradual Retirement through Job Type Adjustments

Gradual retirement has been a common agenda for Japan, Europe and the United States, but the details differ between Japan and Europe. In Europe, the labor force participation rate and employment rate fall significantly by the age at which people begin to receive public pension benefits or by the age at which people become eligible for early retirement promotion schemes. If we look at the policies for the employment of older persons in Europe, we find that they vary widely. Many countries have revised the early retirement promotion policies that were in effect from the late 1970s to the mid-1990s, and are striving to expand their employment rates among those in their late 50s. Sweden is striving to expand employment among those in their 60s by revising its public pension system and compulsory retirement age system (collective agreements that set the mandatory retirement age below 67

will become invalid from the end of this year). And in France, where the age at which people begin to receive public pension benefits is 60, it is still considered normal to take early retirement even before that point. Each country is addressing the idea of promoting gradual retirement. For example, some of these countries are encouraging partial retirement combined with part-time employment. Based on these numbers alone, such as the labor force and the employment rate, Japan is already implementing gradual retirement, at least among males. However, wages, job types and employment patterns are quite different before and after the age of 60, and the achievement of gradual retirement in all aspects, including such elements, is an issue in Japan on a par with the promotion of employment among women in all age groups. The United States falls somewhere between Japan and Europe. Most people retire fully and abruptly from their long-term or career jobs, but not a few retire from their part-time bridge jobs. Even the United States is dealing with the increasing appeal of part-time options and the introduction of formal phased retirement programs. (Sara Rix's article submitted to the JIL, International Workshop 2001)

3. Challenge of Age-Free Employment

If policies for the employment of older persons are divided into: (1) policies that restrict older persons; (2) policies that more broadly treat persons who have difficulty finding employment including older persons; and (3) policies that aim to correct age discrimination, Japanese policies are more focused on (1) and (2), while efforts to correct age discrimination have only just begun. In Europe, there are significant differences by country, but the situation in many countries resembles the one in Japan. In the United States, a country that emphasizes market mechanisms and equal opportunity, policies for the employment of older persons primarily fall into category (3). Consequently, in addition to regulations such as the Age Discrimination in Employment Act (ADEA), the one noteworthy policy is the Senior Community Service Employment Program, which provides part-time

community-service employment for older people on low incomes.

In November 2000, the EU Committee adopted a New Framework Directive Prohibiting Employment Discrimination. This Directive sets a general framework prohibiting employment discrimination based on religion, belief, disability, age and sexual orientation. The Directive must be implemented by each member's law or social partner agreement by December 2003. In the case of age and disability, the implementation period may be extended by three years, that is, to December 2006. The EU Directive includes some permitted differences of treatment justified by a legitimate aim. It is interesting that both Japan and the countries of Europe are searching for a point of balance between long-term employment practices and the prohibition of age discrimination. ⁽³⁾ **JIL**

Notes

(1) The public pension for employees has two parts. The fixed-amount base pension will begin to be paid at the age of 65 in 2013 for men and 2018 for women. The wage-based portion will begin to be paid at the age of 65 in 2025 for men and 2030 for women. In 2001, the base pension starting age for men was 61. Only employees receive the latter; all other contributors only receive the former at the normal pensionable age of 65.

(2) Silver Human Resources Centers generally accept older persons over the age of 60 who are healthy and have the desire to work as members. They make contracts with homes, businesses and public offices for temporary or short-term jobs closely tied to their local communities. They offer jobs to registered members who want to work based on their experience, and the members receive a fixed wage for their work.

(3) You can find the papers submitted to the workshop ("JIL Workshop/Symposium 2001, Toward Active Aging in the 21st Century - Japan/United States/EU Joint Research") at the Japan Institute of Labour homepage (<http://www.jil.go.jp/seika/workshop.htm>)

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