

Business Trends for an Aging Society

– The Search for a “Happy Retirement” Model in Japan –

By Yamada Kenji

Living Conditions of Older Persons in Japan

1) Population

As of September 2001, Japan's population of older persons (those aged 65 and over) totaled 22.72 million or 17.9% of a total population of 127.16 million. Those aged 75 and over totaled 9.45 million, or 7.4% of the total population.

Looking at the 65's and over by sex, males numbered 9.51 million (15.3% of the total male population) while females numbered 13.21 million (20.3% of the total female population). Elderly women outnumbered elderly men by 3.7 million, and for the first time women aged 65 and over accounted for more than 20% of all the women in Japan.

Today, Japan's society is characterized as an aging society of declining birth rates. Along with the increase in the number of older persons, the decrease in the number of children is expected to continue over the long term.

According to the population projection for Japan of the National Institute of Population and Social Security Research (IPSS),⁽¹⁾ from 2000 to 2030, the under-14 population will decline rapidly (from 18.5 million to 13 million), the 15-64 age group will also contract (from 86 million to 70 million), while those aged 65 and over will

substantially increase (from 22 million to 35 million). Among those in the 65 and over bracket, numbers of “second-stage” elderly in particular – those aged 75 and over – will jump from 9 million to 20 million. Most of the increase in older persons will come from these “second stage” elderly. (Table 1)

The proportions of the 65's and over as a percentage of the total populations of several countries (notwithstanding some differences among the years surveyed) are: Italy, 17.7%; Sweden, 17.3%; Germany, 16.2%; France, 15.8%; and the United Kingdom, 15.6%. In Japan, the 65's and over make up 17.9% of the total population, the highest rate among major countries.

Looking at the number of years it took for the 65's and over to double from 7% of the population to 14% (the number of years it took for the percentage points to double), in Sweden this took 85 years, in the United Kingdom 47 years, and in France 115 years. Japan doubled the percentage of its elderly population much more rapidly, taking just 24 years. Whereas in 1970 the proportion was 7.1%, by 1994 this had doubled to 14.1% of the total population.

According to the statistics of the IPSS, the proportion of 65's and over will continue to increase in the future. Further extremely rapid – even in international terms – aging of the society is predicted.

The reason for this rapid aging is that the “baby boomers” born in large numbers after World War II are soon to join the ranks of older persons. This same situation is paralleled in the United States. The improvement in hygienic and medical standards after the war as well have produced in Japan, the world's highest average life expectancy, and this is spurring on the rapid aging of society.

2) Households

Of the total number of households (46.38 million) in Japan in 2000, one in three (15.26 million) included an elderly member. The rate of increase in households with an elderly member is substantially outstripping the total household rate of increase.

Looking at the composition of households with an elderly member, households where the elderly member lived with his/her children's offspring or grandchildren formed the most common type, at 5.3 million households, or 34.7% of total households with an elderly member. Next came couple-only households, which numbered 4.03 million, or 26.4% of total households with an elderly member. Last were households where the older person lived alone, and these numbered 3.03 million, or 19.8% of the total.

Since 1990, the proportion of households where the elderly member lived with married offspring (a couple) or grandchildren, has rapidly declined, from 49.4% in 1990, to 42.3% in 1995 and 34.7% in 2000. Households where the older person lived alone rose from 15.1% of households with an elderly member in 1990, to 17.2% in 1995 and 19.8% in 2000.

3) Housing

While Japanese housing was characterized as “rabbit hutches” in the French media some time ago and the

Table 1 Population and Age Composition Coefficients (medium estimate) by Three Age Divisions (in Total Population): 0-14, 15-64, 65 years old and over

Year	Population (1,000's)			Proportion (%)			
	Total	0-14 years old	15-64 years old	65 years old and over	0-14 years old	15-64 years old	65 years old and over
2000	126,926	18,505	86,380	22,041	14.6	68.1	17.4
2010	127,473	17,074	81,665	28,735	13.4	64.1	22.5
2020	124,107	15,095	74,453	34,559	12.2	60.0	27.8
2030	117,580	13,233	69,576	34,770	11.3	59.2	29.6

Source: Statistics of the National Institute of Population and Social Security Research

Table 2 Number of Householder Households by Total Floor Area (Elderly Households, Total) (Number of Households, m²)

	Total	Up to 69m ²	70-79m ²	80-99m ²	100-149m ²	150m ² and over	Average m ²	100m ² and over (from columns at left)
Total number of 65 years and over single person householder households	2,425,200	1,302,500	152,700	341,800	409,800	215,500	79.12	625,300
Total number of 65 years and over couple householder households	3,508,400	939,500	244,000	622,400	1,073,900	627,200	108.89	1,701,100
Total number of householder households including a member 65 years and over	13,857,300	3,302,800	735,500	1,956,500	3,972,000	3,883,800	123.24	7,855,800
Total number of householder households (reference)	43,922,100	19,094,500	2,715,600	5,536,300	9,458,700	6,392,800	92.43	15,851,500
Single-person households (reference)	10,631,900	8,290,900	361,800	653,400	735,300	343,700	49.38	1,079,000
Two-person households (reference)	11,022,100	4,579,300	789,800	1,610,600	2,520,600	1,311,000	92.07	3,831,600

Source: 1998 Housing and Land Statistics Survey Report, Volume 1, All-Japan

Note: "Householder households" containing at least two generations in one house refers to households of the home owner or home renter.

image of large families living in small dwellings has stuck, this is characteristic only of large metropolitan areas such as Tokyo and Osaka. Looking at Japan as a whole, housing standards are not so low as this image would suggest (the average area of a dwelling is 92 m²).

In particular, the average area of dwellings inhabited by older persons is 80 m² for single-person households and 108 m² for elderly couples. In the case of multiple-generation households, the average area is a comparatively large 123 m². (Table 2)

4) Employment

Among older Japanese aged 65 and over in 2000, the number of older persons still in the labor force (total of employed plus fully unemployed) was 4.93 million, making an elderly labor force population rate (elderly labor force population/elderly population) of 22.6%. Looking at work force participation by gender, 34.1% of elderly men

and 14.4% of elderly women were in the labor force.

At 22.6%, Japan's elderly labor force population rate is quite high in comparison to that of Europe and the United States. In the United States, the rate is 12.8%, in Germany 2.7% and in France 1.5%.

While the male elderly (65 and over) labor force population rate is gradually declining, in 2000, the rate for those aged 65-69 was still 51.1% (one in two) and for those aged 70 and over, the rate was 24.3% (one in four).

The female elderly (65 and over) labor force population rate is also slowly falling. In 2000, the overall rate was 14.4%, while 25.4% of those aged 65-69 were still in the labor force and 9.8% of those aged 70 and over.

5) Income and Lifestyle

As already mentioned, over 20% of older persons in Japan are in employment, but conversely a little under 80% are without jobs.

Among the households of at least two persons where the householder was jobless and aged 65 or over (64.3% of all households in which the householder is 65 or over, average number of household members is 2.35, average age of householder is 72.3 years), the 2000 average real monthly income was ¥245,470 per household. Breaking this down, social security benefits such as public pensions contributed ¥217,358 or 88.5% of the real income.

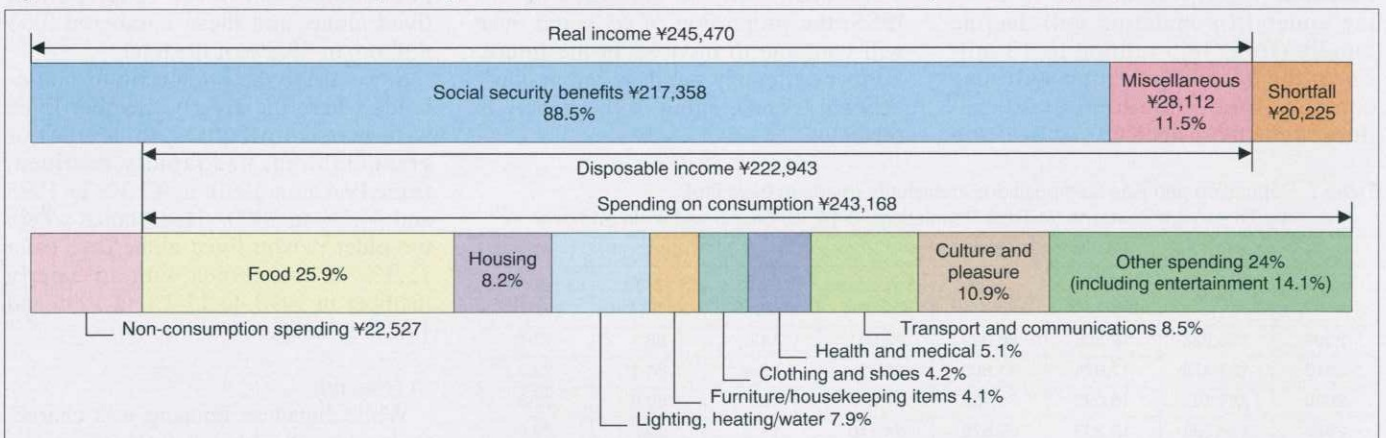
Spending on consumption was ¥243,168, or ¥20,225 more than disposable income of ¥222,943, with the shortfall coming from savings or similar sources. (Figure 1)

6) Assets

For households of at least two persons with the householder aged 60 or over, the average value of family assets per household (net asset worth) as of 1999 was ¥65.62 million.

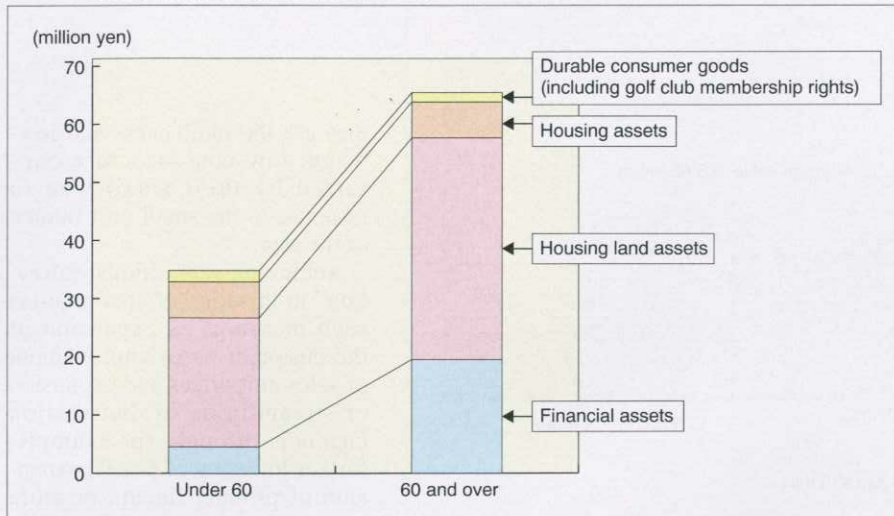
Looking at type of assets, land assets accounted for the bulk of household

Figure 1 Real Income and Consumer Spending in Jobless Households Where Householder is 65 years or Over (2000)



Source: 2000 Family Income and Expenditure Survey

Figure 2 Value of Household Assets by Age of Householder
(Households of Two or More Persons)



Source: 1999 National Survey of Family Income & Expenditure

wealth at an average ¥38.02 million per household (57.9% of net asset worth). This was followed by financial assets, which, after subtracting current debt from current savings, averaged ¥19.66 million per household (or 30.0% of net average household worth). Next came housing assets of ¥6.15 million (or 9.4% of average household worth), while durable consumer goods (including golf club membership rights) contributed ¥1.79 million (2.7%). Among housing and housing land assets, rental properties or second houses (not the home currently lived in) accounted for an average ¥9.57 million.

Compared to families headed by a householder under 60, whose average value of family assets per household was ¥34.82 million, families with a householder over 60 were 1.9 times richer in assets. Making a comparison by type of assets, 60-years-old-plus householder households enjoyed 4.4 times the financial assets of under-60 householder households and housing land assets that were 1.7 times greater. However, housing assets and the value of durable consumer goods were lower than households headed by someone under 60. (Figure 2)

However, these statistics do not imply that all elderly households in Japan have a net asset worth of ¥60 million. Looking at the distribution of the range of household asset value, 63.0% of all households surveyed fell below the average net asset value. And the largest group (12.3% of the total)

fell into the range of "more than ¥20 million but less than ¥30 million" net worth. (Figure 3)

7) Comparisons Between Savings of Older Persons in Japan and the United States

Although it is often said that the saving rates of Japan's older persons are always high while older persons in America live off their savings, a close-up examination of the situation reveals that this is not the case.

As mentioned before, most of the elderly households even in Japan are jobless and these households cover 4.5% of their total spending (the ¥20,225 shortfall / their ¥222,943 disposable income) by using their financial assets.

On the other hand, a special characteristic of elderly households in the United States is that they utilize their assets to a different level, living off not only their financial assets but their housing assets as well. According to the statistics, older persons of America have an average net asset worth (funds plus real possessions minus debt) of 6.6 times disposable income. (The Surveys of Consumer Finances, 1998) On the other hand, their spending exceeds their disposable income by more than 7.9%. (The 1995-1999 average of the Consumer Expenditure Survey, 1999 reveals negative savings of 7.9%, depletion of financial assets of -1.3%, and depletion of real assets of 9.3%.) If this consumption is continued for 20

years, assets corresponding to five years of disposable income remain.

Similarly, if we calculate the value of assets of older Japanese relative to disposable income, then Japanese have a much higher ratio of assets to disposable income than their US counterparts (24 times as against 6.6 times). The spending of older Japanese exceeds their disposable income by 4.5%, but even if they keep this up for 20 years, they will still retain assets worth 23 times their annual disposable income. (Table 3)

Business Trends for Japan's Aging Society

Given the background of these conditions, businesses oriented toward the needs of Japan's aging society should have a bright future, and already various products and services are being introduced, and business types of participant companies are also wide-ranging. In April 2000, the government introduced the long-term care insurance system, which made it easy for private-sector businesses to enter the long-term care market. As a result, many companies began focusing their services on this area.

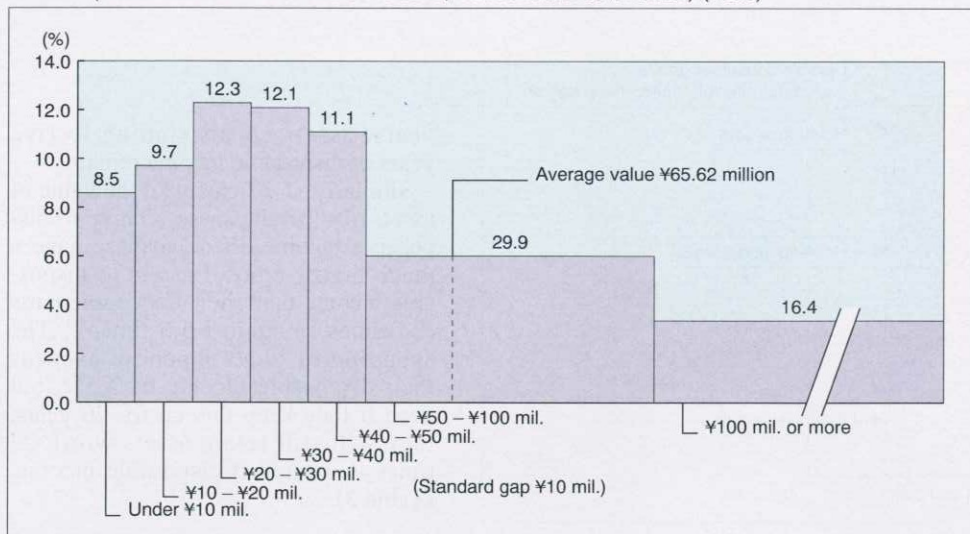
Let us outline the situation surrounding businesses committed to meeting the needs of Japan's aging society.

1) Government's Economic Policies

The government of Japan has designated 15 fields as new growth areas, including medical and welfare, lifestyle and culture, environment-related and biotechnology. These are expected to yield 7.4 million new jobs and create new markets worth ¥350 trillion by 2010.

Of these new growth areas, medical and welfare-related are expected to become the largest, yielding 1.3 million new jobs. The social necessity of all these new fields has long been strongly recognized and there have been high expectations that they will become growth areas. Currently, however, they cannot stand by themselves as proper industries in the market economy for the following reasons.

Figure 3 Distribution of Household Asset Value by Group
(Households of Two or More Persons, Householder 60 or Older) (1999)



Source: 1999 National Survey of Family Income & Expenditure

- (1) User needs are diverse, mass production is difficult, and an individual response is needed.
- (2) Few large companies have entered the field because of the lack of scale merit. Small and medium-sized businesses provide the bulk of the services.
- (3) Prices cannot be lowered because of the difficulty of trimming costs in these products and services.
- (4) Because the users cannot bear high costs, the industry is protected by a subsidy system and this inhibits technical and business innovation.

The Nomura Research Institute calls these kinds of industries “social asset industries” for which social needs are high but cannot stand alone due to low individual product demand. Nomura also calls them “disk-shaped industries” because although needs are diverse and

Table 3 Ratio of Assets to Disposable Income among Older Japanese

Total assets (million yen)	65.62m
Financial assets (million yen)	19.66m
Land assets (million yen)	38.02m
Housing assets (million yen)	6.15m
Durable consumer goods	1.79m
Disposable income (annual, million yen)	2.68m
Assets (financial) relative to income (x)	7.3 x
Assets (land) relative to income (x)	14.2 x
Assets (total) relative to income (x)	24.5 x

Sources: Based on 1999 National Survey of Family Income and Expenditure and 2000 Family Income and Expenditure Survey

the market is wide, the demand for each individual item is low and the market is shallow. (Industries that allow mass production and large-scale sales could be called “tubular industries” because the market is narrow and deep.)

Businesses oriented toward the needs of the aging society, including medical and welfare-related industries, are broad in concept but each shares “disk-shaped industry” characteristics. That is, in each: (1) customers are difficult to identify and marketing strategy is hard to create; (2) customer needs are diverse, products become niche products, and new product development is difficult; and (3) service-type businesses are labor intensive and find it difficult to make profits.

2) Conditions for the Success of Aging Society Oriented Businesses – Creating a Horizontal Division of Labor and Collaboration among Companies

Figure 4 is a rough system sketch of typical products and services for businesses oriented toward the aging society. While large corporations are involved in some of these businesses, many have won a place in the market through tightly focused product development and the marketing efforts of small and medium-sized enterprises. For example, nearly all of the companies manufacturing welfare apparatus are small businesses employing less than 10 workers. These compa-

nies use the nimbleness and low-wage, low-cost structure conferred by their small size in response to the small cost burden of the user.

Achieving real “industrialization” in this kind of area requires such measures as expansion of the customer base, improvement of sales unit prices and expansion or streamlining of distribution channels through, for example, further lowering of prices, expansion of product lineup, or more added value. However, it is difficult for individual companies to achieve this by themselves; the

chances of success are increased if different types of companies link up to work together.

So, making “social asset industries” viable requires the construction of business schemes by groups of companies oriented toward overall profitability and working together to provide goods and services at low cost and with high added value. Because this network building can deepen and broaden services, it also means that companies are no longer stuck with a “disk-shaped” industry.

This approach shows that what is important is not a vertical division of labor in which numerous small and medium-sized companies operate under the umbrella of a large corporation, but a horizontal division of labor and collaboration among companies in which various kinds of companies share their mutual strengths. For example, in the United States, many venture businesses and large corporations link up to create a symbiotic structure by providing products and services to each other through cooperation, taking orders or outsourcing.

The establishment of a market for senior consumers like AARP (formerly known as the American Association of Retired Persons) is also a means of building this kind of network. If the approaches shown on the following pages advance, there is a good possibility that a similar structure could also be established in Japan.

3) The Long-Term Care Insurance System Lifts the Long-Term Care Business Off the Ground

Along with a major change in the environment caused by the establishment of the long-term care insurance system, attention is now focusing on the long-term care business. The reasons for this interest are as follows.

(1) The appearance of a large and certain market

A rapidly growing market will be publicly secured through the creation of the new system. Just from the size of the insurance benefits, the market will grow from ¥4 trillion in 2000 to more than ¥10 trillion in 2010. Today, there is no other certain market of this size and with this growth rate.

(2) With the introduction of the long-term care insurance system, the barriers to entry are now minimal

At one time, entry to the long-term care industry required public certification and operators needed to meet such requirements as having a track record in a similar industry, as well as conditions relating to staff and facilities. With the introduction of the long-term care insurance system, the track record requirement in particular was waived and entry from other types of business was facilitated.

(3) The possibility of establishing real health care businesses in Japan

If we expand our consideration to include medical care, even now the market is worth ¥35 trillion in Japan (medical expenses of ¥30 trillion and welfare costs of around ¥4 trillion).

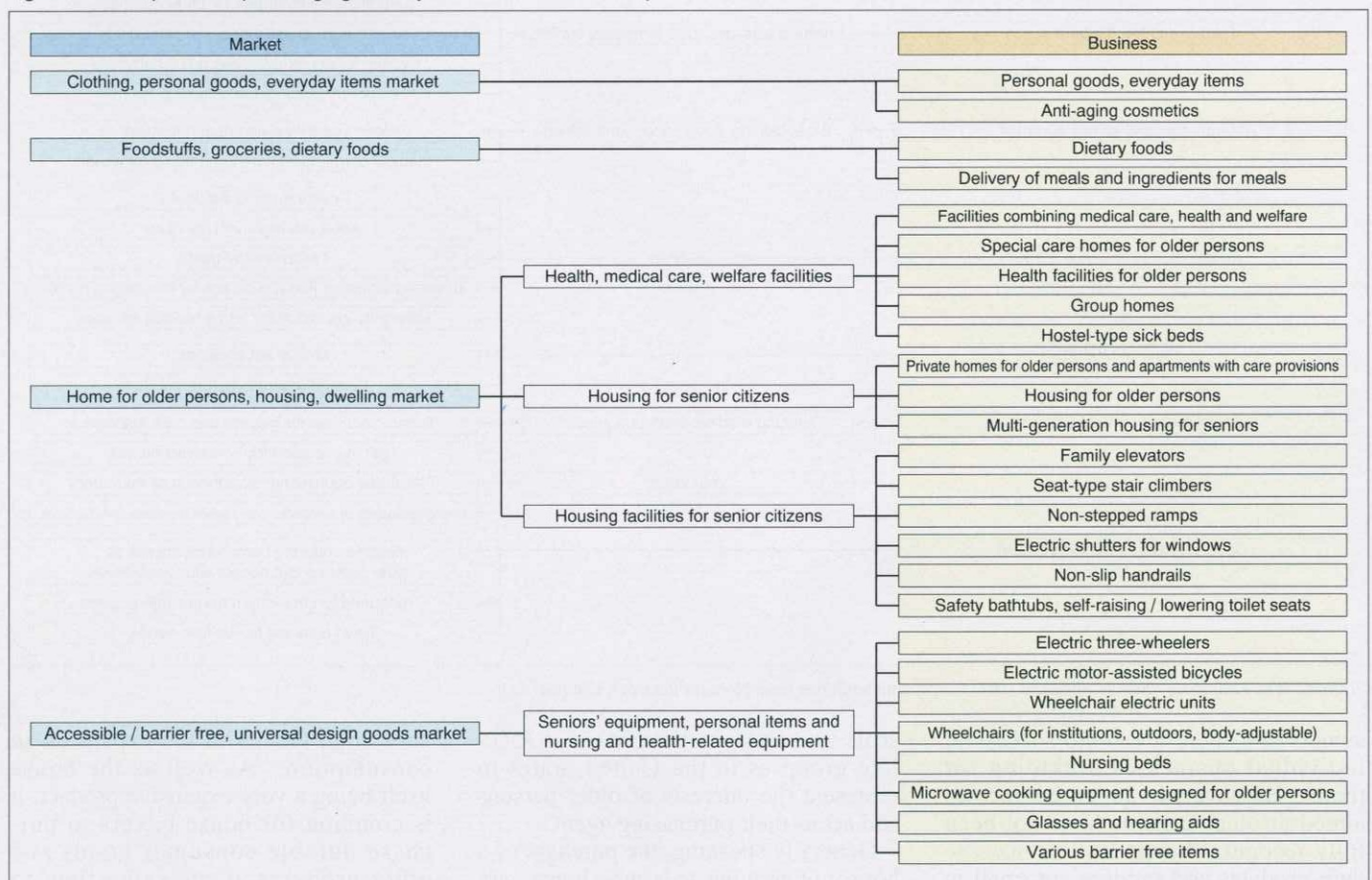
Thinking of the market as medical care and welfare combined increases business opportunities. (In the United States where private-sector companies are free to enter the health care business, that market is worth more than \$1 trillion, or ¥130 trillion a year.) At the current stage, however, profit-making companies are not permitted to participate in the running of medical facilities in Japan, so immediate optimistic expectations for this market would be premature.⁽²⁾

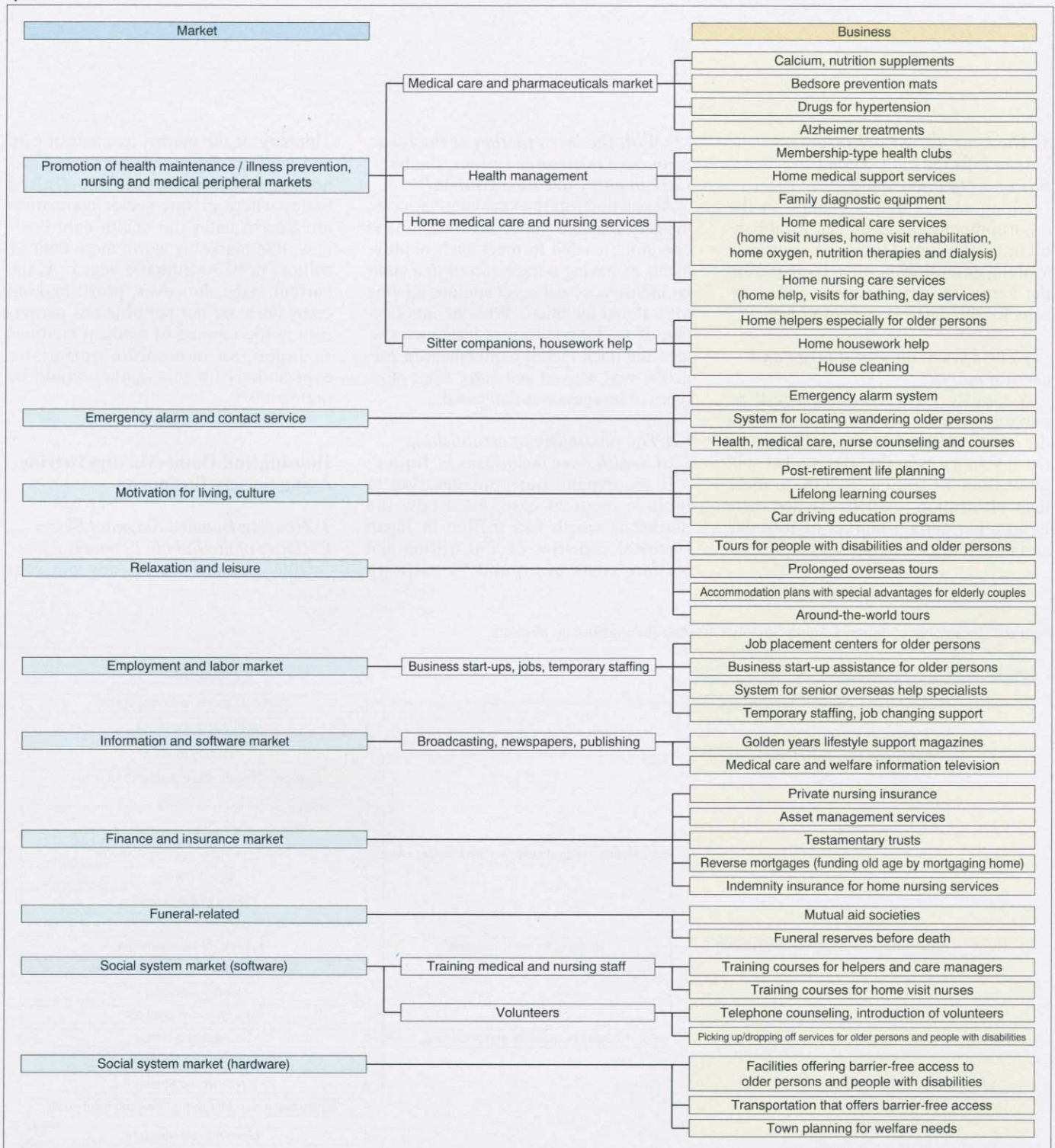
Housing and Home-Making Driving Aging Society Businesses

1) Housing Demand Stagnant Since Collapse of the Bubble Economy

Older persons are already big con-

Figure 4 Examples of Japan's Aging Society Oriented Businesses by Markets





Source: White Paper on "Silver" Business (JBD Corp.) with additions from Nomura Research Institute

sumers and there are some successful individual businesses providing for them. However, in Japan businesses aimed at older persons have not been fully recognized as industries because their products and services are small in

scale and because there is no AARP-like group as in the United States to represent the interests of older persons and act as their purchasing agent.

Generally speaking, the purchase of a house, or moving to a new house, are

very large factors in the expansion of consumption. As well as the house itself being a very expensive product, it is common for house buyers to purchase durable consumer goods and other products at the same time to

update their lifestyles.

The housing industry in Japan has now been flat for some years. The high-growth period that preceded this was characterized by a population drift toward the cities, the trend toward nuclear families and the number of households increased, and these created great demand for housing. However, in the past few years the number of households has remained static and new housing demand has been stifled. In addition, the housing stock itself is quite large and purely in terms of volume, the number of homes exceeds the number of households.

Moreover, in Japanese lifestyles, the general pattern is for people to purchase homes as their children grow up, and when the parents reach retirement age, to sell the house and land, and acquire a second home with the profit. The source of this profit was the rise in land values. However, since the collapse of the bubble economy, land values have fallen and the lack of resources to finance the replacement of the home has adversely impacted the housing industry.

1) Necessary Condition: Develop a System to Turn Real Assets into Liquid Funds

Older Japanese hold a large amount of assets, of which land and housing form a large part. If the asset-rich older Japanese could convert their real assets to liquidity like their U.S. counterparts, they could use them for consumption. Businesses oriented toward the needs of the aging society would then move to a new phase.

To convert real assets to liquidity, an overhaul of the non-new housing secondary market is essential. In Japan, however, only the land the housing stands on has been assessed when valuing non-new housing and the dwelling portion has hardly ever been included. Recently, a "housing performance valuation system" has been developed and gradually the dwelling part, too, is starting to be assessed. However, it will take time for the non-new housing trading market to grow. In the United States there is a popular "reverse mort-

gage" system. Some local governments have pushed to develop such a system in Japan, but because of the inadequacies in the non-new housing market, the mechanisms for assessing housing value are inadequate and the scale of the reverse mortgage market remains very small.

At the same time, the size of the rental housing market continues to grow, with real estate companies and others renting out or leasing out housing. Up until now, the rights of the tenant have been over-protected, even after the expiry of the tenancy agreement, and tenants frequently could not be evicted. As a result, many owners of houses were reluctant to rent their properties out. A few years ago, however, the Land Lease and House Lease Law was enacted and the rights of landlords are now clearly protected.

In any case, the mechanisms for making physical assets liquid are still underdeveloped in Japan, but should they become fully developed, the purchasing ability of older persons can be expected to take a leap forward.

2) Creating an Environment for "Happy Retirement" Lifestyles

If, indeed, it becomes possible to unlock the liquidity in real assets, it will be necessary to build an environment in which older persons can spend money securely. In Japan, the burden of social security provisions like pensions, medical care and welfare is gradually increasing. The burden of taxation plus social security is now almost 40% of the national economy. (In the United States the figure is around 35% and in Europe, about 50%.) As a result, the social security system is being reformed and policies are being implemented to reduce the benefits of pensions and hold down medical costs.

Such reforms to rein in costs make the consumption of older persons defensive, and those with an operable income are tending to increase their savings in addition to the wealth of assets they already hold.

Financial planning in Japan places exclusive emphasis on building up assets against the uncertain demands of

old age and fails to address how to use the assets that are accumulated. In addition, because older persons have mostly lived with their children up to now, the worry of being unable to look after oneself in old age has generally been avoided by relying on the children, with the payoff being the passing on of assets to the children.

However, with the normalization of the nuclear family, members of the baby boom generation, which moved to the city in the years of high economic growth, continue to choose to live apart from their children and parents. As a result, elderly couples and individuals need to take it upon themselves to build Japanese-style "happy retirement" lifestyles.

The businesses needed in this situation should perform simulations of what asset base is needed to provide peace of mind in old age, and recommend spending accordingly.

According to various public opinion polls, the number of older persons who do not wish to be looked after by their children in their old age and not leave assets to their descendants is increasing.

Companies in businesses for Japan's aging society need to offer peace of mind in relation to these kinds of overall lifestyles, and have the ability and products to offer uniquely Japanese "happy retirement" lifestyles. **JITI**

Notes

- (1) See: <http://www.ipss.go.jp/>
- (2) According to a fiscal 2001 survey, the introduction of the long-term care insurance system has resulted in around 2,400 companies now offering home help services and about 2,200 renting out welfare apparatus. Considering that Japan has about 3,300 local government authorities, we can say that a number of private-sector long-term care-related companies have emerged all over Japan.

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