

Chapter VI

Japan's Social Security System

1 The Subject of Japan's Social Security System

Dwindling Birthrates and Aging Population

The social security system draws upon tax and social insurance for its revenue, and is a system that carries out social welfare programs to cope with the various risks in life faced by people such as those whose health has been damaged by illness or disability, and those who have been deprived of their source of income as a result of job loss or retirement. Japan's social security system is similar to those in Europe and the U.S. in that, to satisfy each stage of people's lives, it is composed of such elements as medical insurance, public health services, social welfare services, income maintenance, and employment measures (VI-1). Of these, medical insurance, health systems for the elderly, long-term care insurance and pension systems—as well as unemployment insurance and workmen's compensation insurance—are social insurance programs. In contrast, child welfare, welfare for single mothers and widows, welfare for the elderly, welfare for the physically disabled, welfare for the poor and public health services are all public policies drawing upon taxes for funding.

Social Security Cost

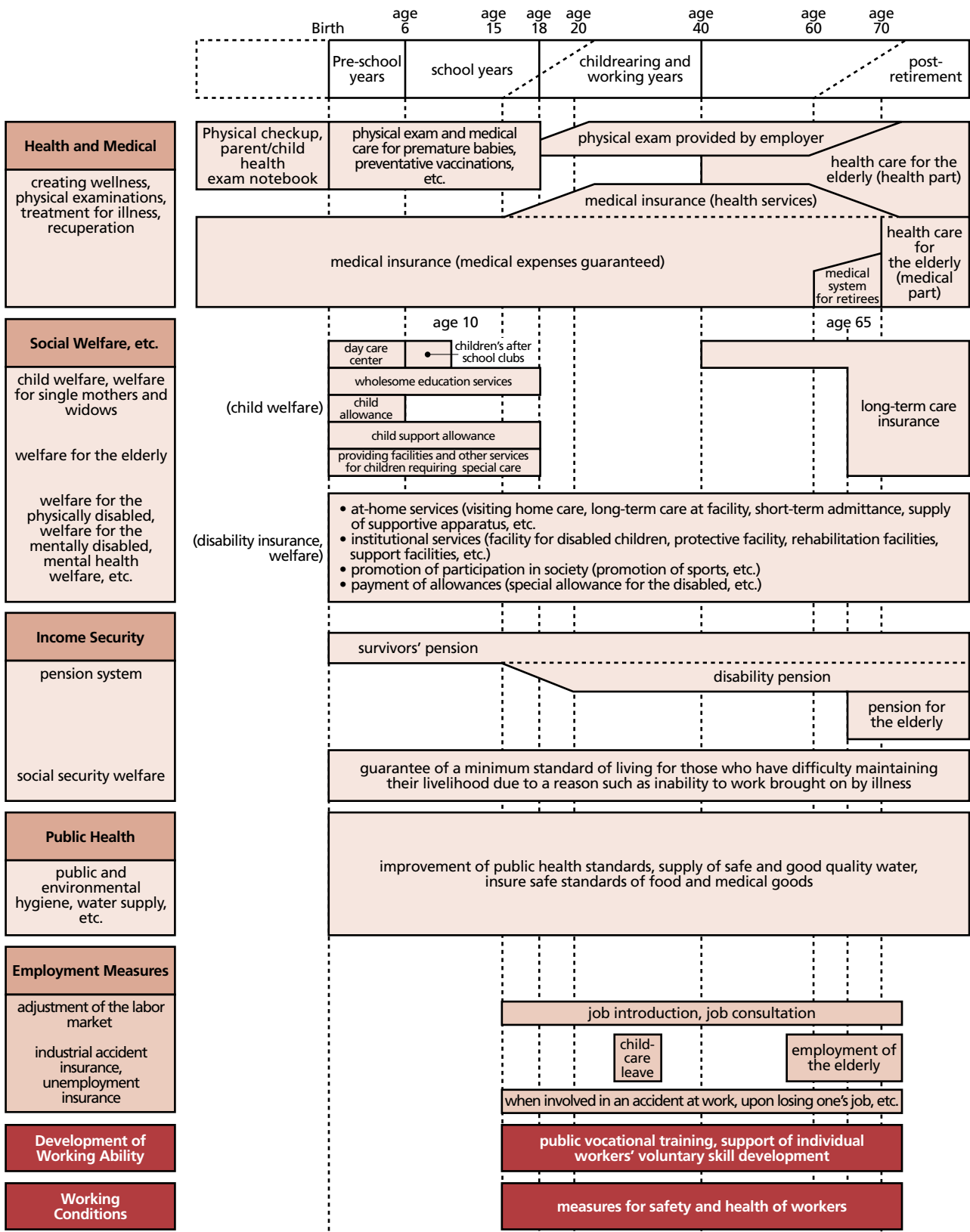
The percentage of Japan's national income occupied by social security benefits and the percentage of national income occupied by social security costs are each low when compared with Germany and Sweden, but at a little higher level than those in the U.S. (VI-2). The reason for the increase in social security outlays compared with 1996 is that the total fertility rate dropped and the percentage of elderly in the population grew (VI-3), leading to an increase in outlays for pension benefits and medical benefits (VI-4). The total fertility rate was 2.13 in 1970—close

to the rate for maintaining population—but by 1999 it had fallen off to 1.34. Consequently, according to the 2000 census, the portion of elderly persons (age 65 or older) in Japan's total population (about 128 million) has reached 17.4 percent. On the other hand, the portion of young population is 14.6 percent, and 68.1 percent of the population is of working age. According to the January 2002 future population projection (National Institute of Population and Social Security Research), the percentage of elderly in the total population is forecast to increase into the future—reaching the 25 percent mark in 2014—so that one out of every four persons in Japan will be aged 65 or older (VI-3).

The Relationship Between Social Security Benefits

As VI-4 shows, since the aging of Japan brings about increased social security outlays, the decreasing percentage of working population implies that the per-person social security cost burden for the working generation will continue to rise, assuming per-person benefit costs for the retired generation are constant. To avoid this kind of inter-generational inequity in the relationship between social security benefits and costs, “An Outline of Principles for the Aging Society” (Cabinet Office) was created in December 2001. To strengthen solidarity between the generations, guidelines are given in this outline for the future of the social security system—to plan for balance between benefits and costs that consider inter-generational equity, and to request a fair cost burden from those who have the ability to pay social security costs, corresponding to their ability to pay.

VI-1 The Social Security System by Life Stage



Source: 2001 Ministry of Health, Labour and Welfare White Paper, Figure 3-1-1

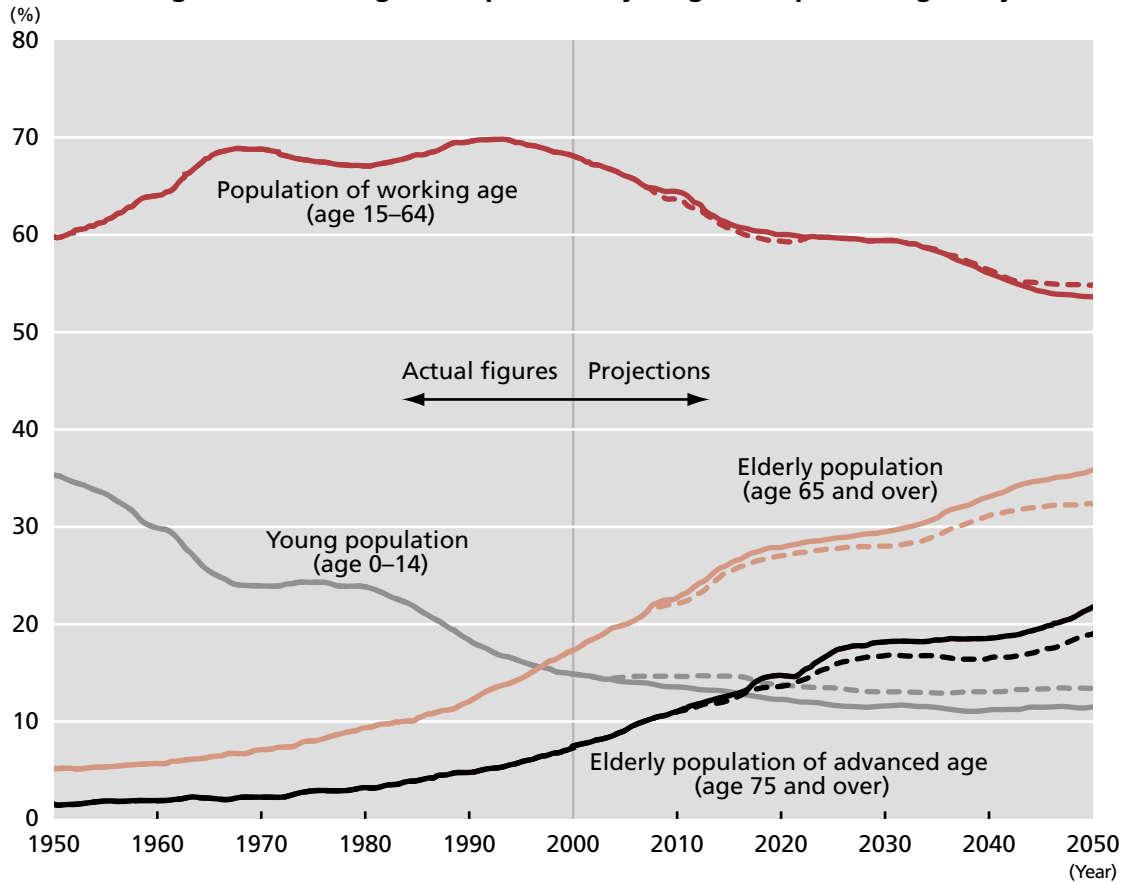
VI-2 Percentage of National Income Occupied by Social Security Benefits and Social Security Costs

(%)

	Japan (1999)	U.S. (1995)	U.K. (1999)	Germany (1996)	France (1999)	Sweden (1996)
Social security benefits						
As percentage of national income	19.6	18	n.a.	37.7	n.a.	45
(as percentage of GDP)	14.6	15	n.a.	28.2	n.a.	33
Portion of national income occupied by social security costs						
Tax Burden ①	23.4	26.1	38.4	29.2	36.7	51.2
Social Security Cost ②	13.6	9.7	n.a.	26.7	28.6	n.a.
National burden rate ①+②	37.0	35.8	n.a.	55.9	65.3	n.a.

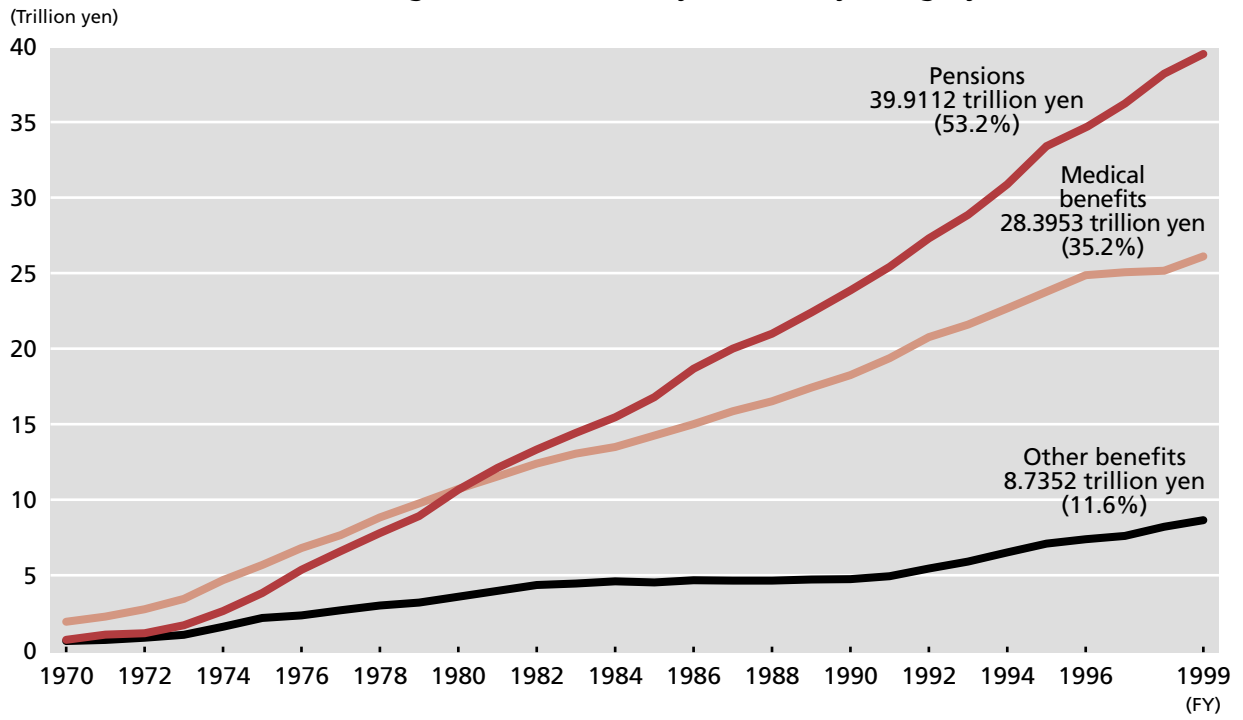
Source: 1999 Social Security Benefit Costs, National Institute of Population and Social Security Research

VI-3 Changes in Percentage of Population by 3 Age Groups: Average Projections



Source: Population Projections for Japan (Jan. 2002 Estimates), National Institute of Population and Social Security Research
Note: dotted line is the previous average

VI-4 Changes in Social Security Benefits by Category



Source: 1999 Social Security Benefit Costs, National Institute of Population and Social Security Research

2 Pension System

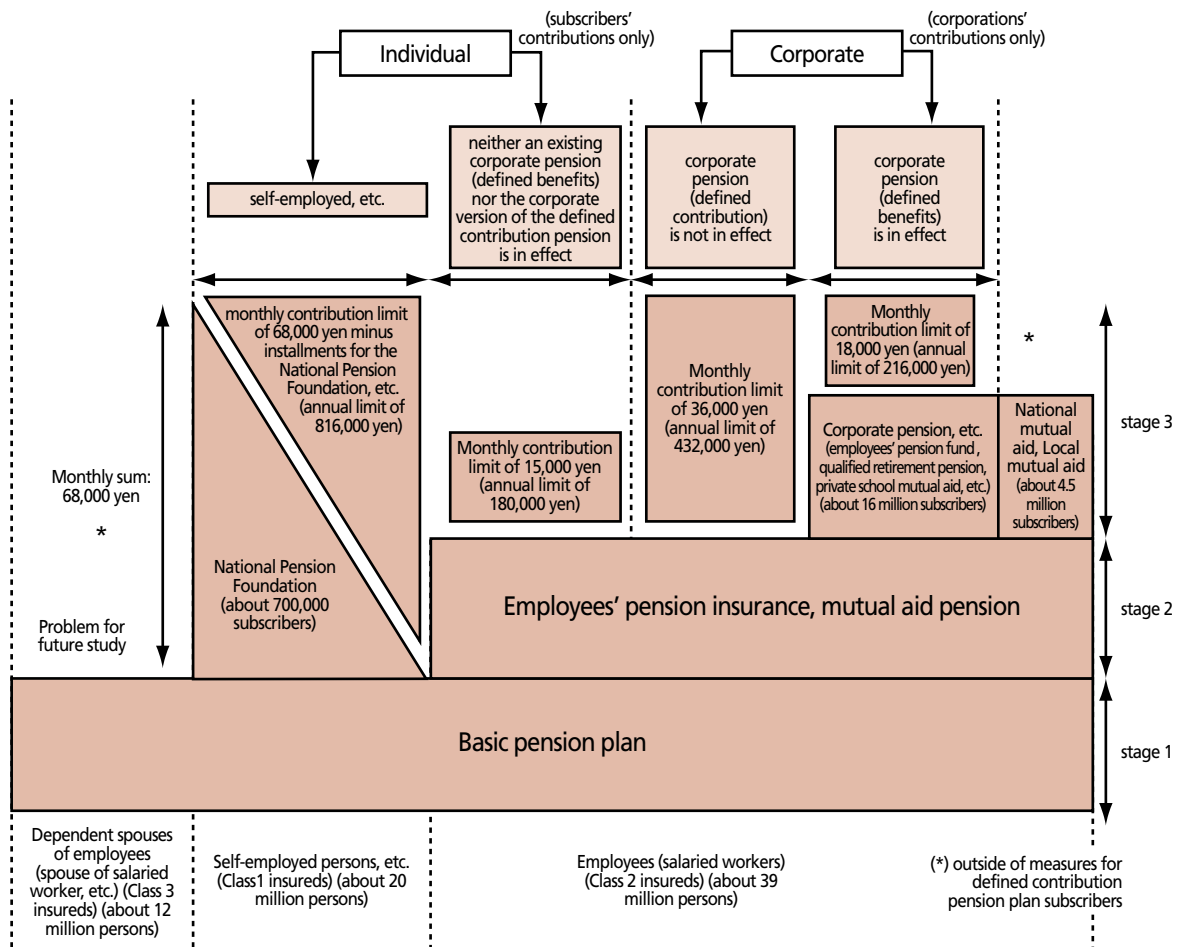
The Characteristic of Japan's Pension System

All Japanese citizens are insured in the medical insurance and pension systems, which are run under the principle (insurance for all, pensions for all) that medical services or pension benefits be receivable upon becoming ill or reaching old age. Within Japan's pension system (VI-5) is a basic pension; all citizens (persons aged 20 to 59) become members of this basic pension plan and receive pension benefits upon reaching the age for payment of benefits to begin (age 60 at present, age 65 for men from 2013, and age 65 for women from 2018). For salaried workers and government employees, respectively,

there are employees' pensions and mutual aid pensions to provide pension monies proportionate to salaries in addition to the basic pension. While basic pension premiums for the self-employed are fixed amounts, the pension premium rate for salaried workers and government employees is 17.5% of their salaries (in 2000).

In terms of corporate pension plans to supplement these public pensions, up to now there were the Employees' Pension Fund and tax-qualified pensions for salaried workers. Added to these, to more fully protect persons with the right to receive corporate pension benefits and to substantiate portability of

VI-5 The Pension System



Source: Annual Report on Health, Labour and Welfare, 2001, Ministry of Health, Labour and Welfare

reserve funds, a defined payment corporate pension and defined contribution corporate pension were introduced in 2001. Also, for the self-employed, there is the National Pension Foundation—equivalent to the corporate pension system—to supplement the basic pension. Further, there is a survivors' pension for the bereaved families of pension plan subscribers or of pension beneficiaries; and disability pensions may be provided under specific conditions when subscribers have disabilities. Developments in the numbers of pension beneficiaries and benefit amounts are as in VI-6.

The characteristic of Japan's pension system relating to the labor market is the point that it cooperates with unemployment insurance. That is, for older workers between ages 60 and 64, elderly employment continuation benefits and elderly re-employment benefits are provided when wages fall below a specific level. Further, to support female workers' combining of childrearing and work activities, payment of employees' pension insurance premium is excused for both the worker and employer during the period of child care leave.

VI-6 Annual Changes in Numbers of Public Pension Plan Subscribers and Public Pension Recipients

	Number of Public Pension Plan Subscribers					Number of Public Pension Recipients				
	Total	Class 1 Insureds	Class 2 Insureds		Class 3 Insureds	Total	National Pension	Employees' Pension	Mutual-aid Association	Welfare Pension
		(self-employed, etc.)	Employees' Pension (salaried workers)	Mutual aid Pension (government workers)	(dependent spouses of salaried workers)					
1987	64,105	19,292	28,216	5,299	11,299	22,523	10,077	8,910	2,048	1,488
1990	66,313	17,579	31,493	5,285	11,956	25,001	11,001	10,643	2,390	964
1995	69,952	19,104	33,275	5,327	12,201	32,363	14,751	14,254	2,958	400
1996	70,195	19,356	33,462	5,362	12,015	33,940	15,611	14,956	3,044	329
1997	70,344	19,589	33,468	5,339	11,949	35,765	16,585	15,778	3,134	268
1998	70,502	20,426	32,957	5,302	11,818	37,404	17,469	16,503	3,218	215
1999	70,616	21,175	32,481	5,273	11,686	39,062	18,362	17,233	3,296	171

Source: *Annual Report on Health, Labour and Welfare, 2001*, Ministry of Health, Labour and Welfare

3 Medical Insurance and Long-Term Care Insurance

Features of the Medical Insurance System

Within Japan's medical insurance there is association-managed health insurance for employees (and their families) of workplaces of five or more workers, government-managed health insurance for employees (and their families) of workplaces with fewer than five workers, national health insurance for the self-employed, etc., and medical insurance provided by mutual aid associations for national government employees and local government employees (VI-7, upper part). Subscribers in medical insurance programs pay the insurance premium themselves, but the subscribers themselves and their families may receive medical services at the medical institution of their choice by paying only a portion of the medical expense. Moreover, the health insurance association, government-managed health insurance association, and national health insurance have an elderly insurance system for elderly aged 65 or over requiring long-term care and for all elderly aged 70 or over. In this system (VI-7, lower part), the medical cost burden borne by the elderly is mitigated by contributions from the respective insurance associations, according to the number of elderly subscribers to each system; the fewer the elderly subscribers, the greater the contributions.

As VI-4 shows, due to the continuing rise in medical expenses, medical insurance finances have gone into deficit status, and lively discussion on health insurance reform is taking place with stress

on elements such as the strengthening of the function of insurers, regulation of risk structures, and raising the portion of expenses paid by recipients of medical care.

Long-Term Care Insurance System

Long-term care insurance has been in operation since April 2000 to provide public assistance to lighten the care burden for long-term care recipients' families. This assistance makes it easier for bedridden elderly and other elderly requiring long-term care to receive this care at home, and for others to receive long-term care at a facility outside of home. Under the long-term care insurance system, citizens aged 40 and older pay long-term care insurance premium. In return, persons 65 and older who need long-term care may receive specific long-term care services, such as the dispatch of a home helper, according to the assessment of committees established locally to approve the necessity of long-term care. While the insurance premiums and standards for approval of long-term care necessity are determined uniformly by the national government, the above-mentioned local committees do the approving based on these standards. For the provision of long-term care services as benefits in kind, selection by the person requiring long-term care shall be regarded highly; services will be carried out by a provider chosen by the recipient of the care from a list of locally approved long-term care service providers (VI-8).

VI-7 The Medical Insurance System

Plan			Insurer (As of 31 March 2000)	Subscribers (As of 31 March 2000) and subscriber's dependents (Unit: 1,000 persons)	Insurance Benefits		Financial resources		Percentage of elderly population insured for health and medial care (As of 31 March 2000)		
					Medical Benefits		Cash Benefits	Insurance premiums (As of 31 March 2000)		Government subsidies (2000 budget)	
					Payment in part						
Health insurance	Ordinary employees	Government-managed	National government	37,321 [19,527 17,794]	<ul style="list-style-type: none"> ○ Subscriber— 20 percent Family— inpatient 20 percent outpatient 30 percent ○ Outpatient medicine (children under 6 exempt) • internal use medicine, per prescription: Daily portion 1 type 0 yen 2-3 types 30 yen 4-5 types 60 yen 6 or more types 100 yen • external use medicine, per prescription: 1 type 50 yen 2 types 100 yen 3 or more types 150 yen • one-shot medicine, per administration: per type 10 yen 	<ul style="list-style-type: none"> • Sickness benefits • Lump-sum payment for childbirth, child care etc. 	8.5% Special insurance premiums 1%	13.0% of benefits (16.4% of benefits for the elderly)	5.7		
		Association-managed	Health insurance associations 1,780	32,115 [15,394 16,721]						Same as above (additional benefits)	Approx. 8.5 % (Association-wide average)
	Insured parties, as stipulated in Article 69, Par. 7, Health Insurance Law	National government	51 [34 17]	<ul style="list-style-type: none"> • Sickness benefits • Lump-sum payment for childbirth, child care etc. 		Daily rate (Class 1) ¥140 Daily rate (Class 13) ¥2,750	13.0% of benefits (16.4% of benefits for the elderly)	6.6			
Seamen's insurance	National government	244 [89 155]	Same as above		8.8%				Subsidies: ¥30 billion	7.6	
Mutual aid insurance	National government employees	Mutual aid associations (24)	10,091 [4,522 5,570]	<ul style="list-style-type: none"> ○ 30 percent ○ Outpatient medicine (children under 6 exempt) *same substance as health insurance ○ Subscriber— 20 percent Family— inpatient 20 percent outpatient 30 percent ○ Outpatient medicine (children under 6 exempt) *same substance as health insurance 	<ul style="list-style-type: none"> • Lump-sum payment for childbirth, child care • Funeral Expenses etc. 	Each household is assessed a fixed amount based on ability to pay Calculations vary somewhat according to insurer	50% of benefits 32-52% of benefits (see note 2) None	4.3			
	Local government employees	Mutual aid associations (54)							Same as above (additional benefits)	Approx. 7.8%	None
	Private school instructors	Mutual aid associations (1)							Same as above (additional benefits)	Approx. 8.6%	None
National health insurance	Farmers; the self-employed	Municipalities 3,245	46,581	<ul style="list-style-type: none"> ○ 30 percent ○ Outpatient medicine (children under 6 exempt) *same substance as health insurance 	<ul style="list-style-type: none"> • Lump-sum payment for childbirth, child care • Funeral Expenses etc. 	Each household is assessed a fixed amount based on ability to pay Calculations vary somewhat according to insurer	50% of benefits 32-52% of benefits (see note 2) None	23.7			
		Health insurance associations 166							Municipalities 42,242		
	Retired workers eligible for employees' insurance benefits	Municipalities 3,245	Health insurance associations 4,340	<ul style="list-style-type: none"> ○ Subscriber— 20 percent Family— inpatient 20 percent outpatient 30 percent ○ Outpatient medicine (children under 6 exempt) *same substance as health insurance 	(conditional benefits)						
Mutual aid associations for the elderly			[Administrator] Municipalities	14,502 Employees' insurance 3,470 National Health insurance 11,032	<ul style="list-style-type: none"> ○ Outpatient care— pay 10 percent establish a monthly maximum applicable to each medical institution and pharmacy ○ Inpatient care— pay 10 percent establish a monthly maximum applicable to each medical institution 37,200 yen 	Provided by each medical insurance provider	[Bearer of expenses] • National government 12/60 • Prefectures 3/60 • Municipalities 3/60 • Insurers 42/60	Average 11.4			
									Insurance Department Survey As of March 2000		

Source: Annual Report on Health, Labour and Welfare, 2001, Ministry of Health, Labour and Welfare

Notes: 1) Anyone aged 70 or older who subscribes to a medical insurance plan (excluding members of a household receiving Welfare, to whom the National Health Insurance Law does not apply), as well as those aged 65-69 who have been bedridden for an extended period of time, is eligible for health and medical-care services for the elderly.

2) Insurance premium rates for each type of mutual aid are as of March, 1999.

3) Fixed-rate government subsidies granted to persons who subscribed after September 1, 1997 after having been deemed ineligible for medical insurance, and their dependents, are equivalent to [government employee benefits].

4) Low Income Earners: Beneficiaries of old-age welfare pensions who belong to households exempt from municipal taxes.

VI-8 Long-term Care Insurance: Approval of the Necessity for Long-term Care and Method of Using Services

