Chapter VI Social Security System

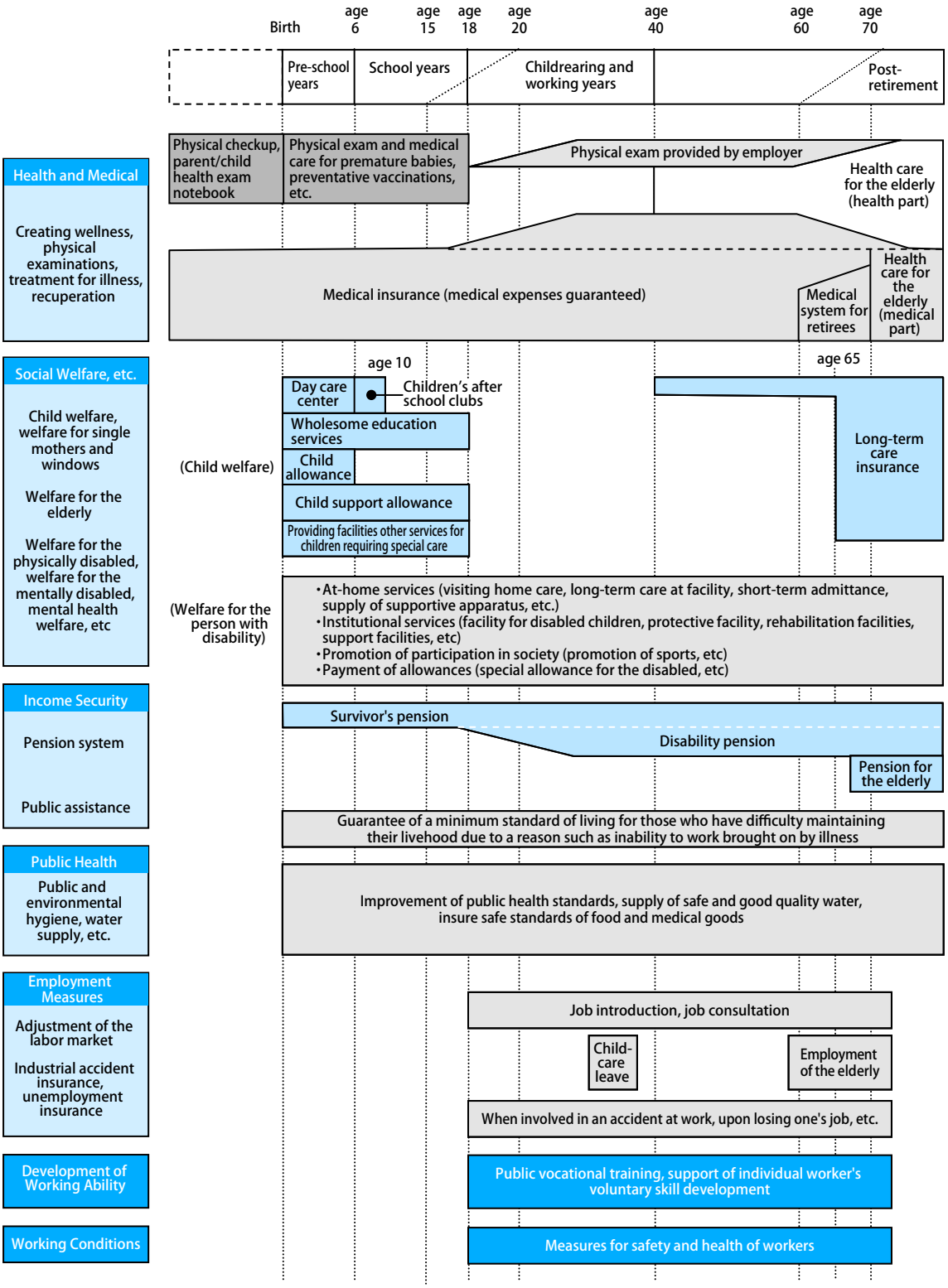
1 The Subject of Japan's Social Security System

Japan's Social Security System Responds to Socioeconomic Changes and Risks in Daily Life

The growing interdependence of the global economy is illustrated by the way in which the destabilization of European economies due to the European debt crisis has had an impact on China and other emerging economies by reducing their exports. In Japan, various policies aimed at stimulating the economy and boosting employment are being promoted with a view to reconstruction after the Great East Japan Earthquake, and a new growth strategy combining bold monetary easing with a raft of economic policies has been launched. However, owing to the time lag before positive moves on financial markets take effect on labor markets, the "Global Wage Report 2012-13" by the International Labour Organization (ILO) reports that the rate of year-on-year change in average real wages worldwide was 1.2% in 2011, down from 2.1% in 2010. Meanwhile, a fall in the labor share has been observed in developed economies, but this trend is seen as particularly marked in Japan (see JILPT "International Labor Information", December 2012). Given this state of affairs, Japan's working population has been in decline since peaking at 66.84 million in 2007, and fell to 65.55 million in 2012. Conversely, the ratio of non-regular employees to all workers continues to rise each year, standing at 35.7% in the final quarter of 2011. Because the wages of non-regular employees are lower than those of regular employees, this situation could have the effect of expanding income inequality and problems of poverty. As a result, the government has asserted need to forge close links between employment policies and welfare policies in order to revive the "large middle class" (see the MHLW "White Paper on Labour Economy 2012 (Analysis of Labour Economy)", Chapter 2).

Amid this situation, a system of social security that guarantees people's livelihoods, based on funding from taxes and social insurance, is playing an important role in addressing the various risks that arise in people's lives, including loss of income due to unemployment or retirement, sickness, disability, etc. 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 (see Figure VI-1). Of these, medical insurances, health care programs for older people, long-term care insurance and pension systems, as well as unemployment insurance and industrial accident compensation insurance are the social insurances that are mainly financed by social insurance premiums and partly subsidized by the government revenues. In contrast, welfares for the child, for single mothers and widows, for older people, for people with disabilities, and for the poor as well as public health services are all public policies provided with funds drawn from taxes. Internationally speaking, the characteristics of long-term care insurance and health care programs for older people in Japan is that they are half funded at public expense out of tax revenues although they are included in social insurance.

Figure VI-1 Social Security System by Life Stage



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

The Benefits and Cost Burden of Social Security

In order to make an international comparison on the trend of social security, the Organisation for Economic Co-operation and Development (OECD) is disclosing information on indices of social expenditure that includes pension funds, medical care and welfare for the poor, child allowance that gets transferred, social security benefits from expenditures on welfare services and expenditures such as expenses for facility development that do not get transferred directly to individuals (OECD Social Expenditure Database 2001). Looking at the percentage of social expenditure occupying the national income, Japan's ratio is lower than European countries, but higher than the U.S. (see upper section of Table VI-2). Furthermore, based on the figures in closely related years, the percentage of national income occupied by social security costs is low when compared with that in Germany, France, and Sweden, but higher than the U.S. and the U.K. (see lower section of Table VI-2).

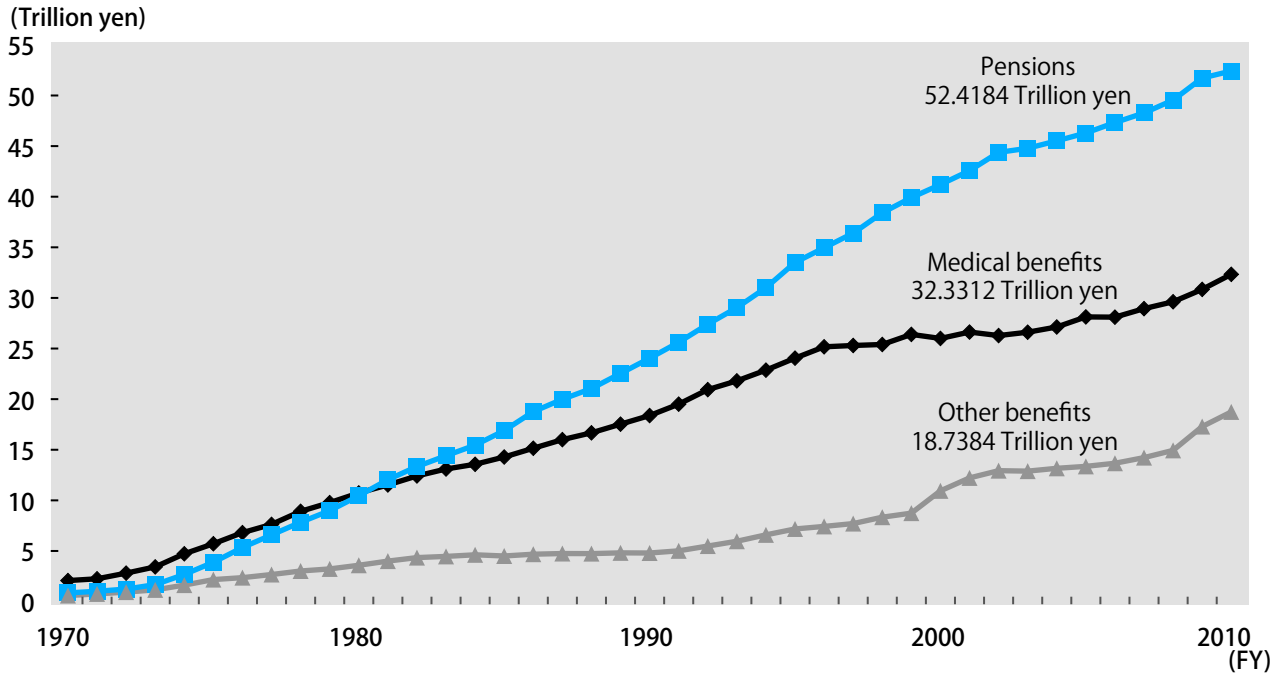
Japan's expenditure on social security benefits is rising as the birthrate declines and the population ages. As of 2011, the total population of Japan was 127.93 million people, while the population of those aged 65 or above had reached 29.6 million (Ministry of Internal Affairs and Communications, Monthly Report on Current Population Estimates, May 2011). As a result, the population aging rate (population aged 65 or above/total population x100) was below 10% in 1980, at 9.1%, but it had increased above 10% to 12.1% by 1990, reaching 23% as of 2010. This progressive aging of the population is bringing about an increase in the number of people receiving pension payments; moreover, per capita medical benefit payments are about five times higher among older people than among those of working age, so medical and healthcare costs have also increased. The growth in medical and healthcare costs declined temporarily with the introduction of nursing care insurance in 2000, but they have been on the rise again since then. As population aging is also leading to an increase in the number of older people in need of care due to the increase in number of "old-old", expenditure in long-term care insurance benefits is also rising. As a consequence, the rise in expenditure on social security benefits, including pension, health care, and long-term care insurance benefits, continues (see Figure VI-3). While expenditure on benefits (especially for older people) has risen in response to population aging, expenditure on welfare-related benefits, including child welfare, continues to account for a small proportion of Japanese expenditure on social security benefits due to the insufficient expansion of childcare-related benefits compared with Scandinavia and France, despite the importance attached to reversing the decline of the birthrate.

Table VI-2 International Comparison of Social Expenditures and National Burden Ratios

	Japan	United States	United Kingdom	Germany	France	Sweden
Social expenditure (% of national income)	26.1	20.3	27.4	35.3	39.4	37.5
Social expenditure (% of GDP)	19.1	16.5	21.3	26.2	28.8	27.7
National burden ratio (% of national income)	40.0	34.9	48.3	52.4	61.2	64.8

Sources: On social expenditure — National Institute of Population and Social Security Research, "Financial Statistics of Social Security in Japan (FY2010)"; on international comparisons of social expenditure based on OECD standards — Ministry of Finance, "International Comparison of National Burden Ratio" (for Japan, actual figures for FY2010; for other countries, OECD "Revenue Statistics 1965-2011" and *id.* "National Accounts")

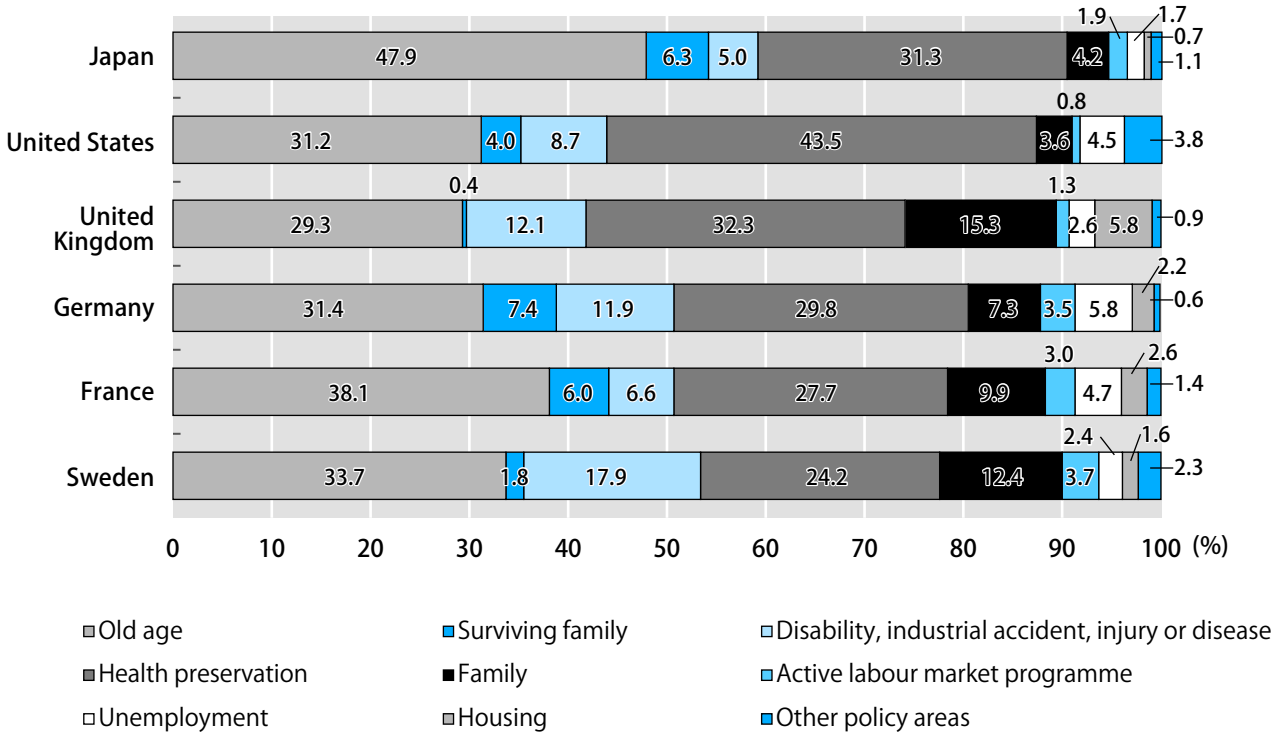
Figure VI-3 Changes in Social Security Benefits by Category



Source: National Institute of Population and Social Security Research, ***Financial Statistics of Social Security in Japan (FY2010)***

As a result, if one looks at an international comparison of the structural mix of social expenditure by government field (Figure VI-4), one can see that whereas in Japan, 47.9% of social security benefit costs are spent on social security payments to older people, the expenditure on family-related policy, including benefits for households with children, and expenditure on protecting livelihoods and other issues account for only 4.2% and 1.1% respectively. Even in the USA, where the ratio of spending on family-related policies is small, expenditure on livelihood protection and other issues is larger than Japan's at 3.8%. In Europe, the emphasis is on welfare for households with children. Here, the ratio of family-related policies to social security benefit costs is 7.3% in Germany, 9.9% in France, 12.4% in Sweden and 15.3% in the UK, more than twice Japan's level.

Figure VI-4 International Comparison of the Structural Mix of Social Expenditure by Government Field (FY2009)



Source: National Institute of Population and Social Security Research, ***"Financial Statistics of Social Security in Japan (FY2010)"***, Figure 3 International Comparison of Social Expenditure by Policy Area in FY 2009

Trends in social security benefit costs are impacted by Japan's declining birthrate and population aging, both of which are expected to continue. According to "Population Projections for Japan (Jan. 2012 estimates)" by the National Institute of Population and Social Security Research, the ratio of older persons to the general population was 23.0% in 2010 but is expected to continue growing. The ratio is forecast to reach 33.4% in 2035, when one person in every three will be elderly, and 39.9% in 2060, when the elderly population will include one in every 2.5 people.

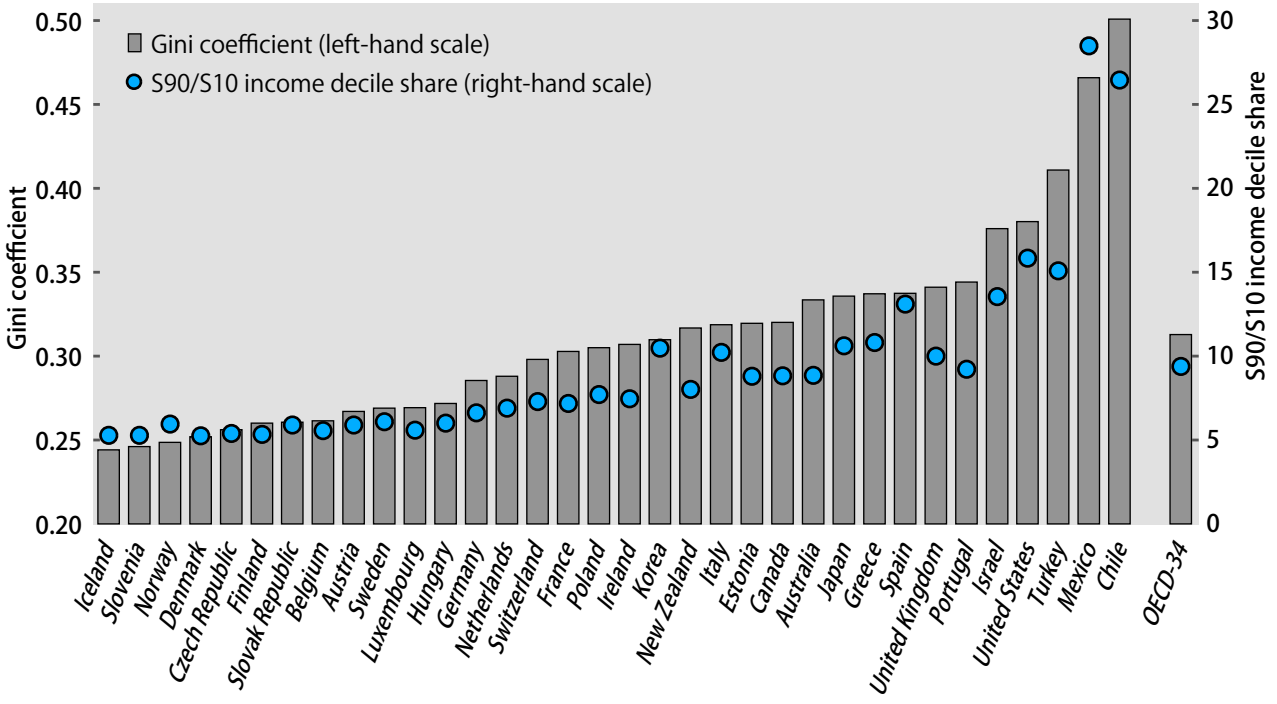
To address this progressive birthrate decline and population aging, a change of government in 2009 provided the impetus for replacing the existing income-capped child allowance (*jido teate*) with uncapped child allowance (*kodomo teate*), and taking a step toward social security reform with emphasis on child welfare. However, due to the large fiscal outlays needed for medical treatment, nursing, welfare and livelihood guarantees for victims of the Great East Japan Earthquake, as well as economic reconstruction of damage areas, child allowance (*kodomo teate*) was abolished as of payments in September 2011. Now, income-capped child allowance (*jido teate*) is again being paid to households with children. Nevertheless, even after another change of administration in 2012, integrated reforms of social security and tax are still being promoted, based on an agreement reached during the previous administration. The aim of this is to secure fiscal resources for social security spending, which is rising with the increase in older persons, while maintaining a balance both with trends in the national economy and with the tax system.

Social Security Cost Burden Based on the Increase in Income Difference and Burden Capacity

According to international comparative research on income inequality by the OECD, a comparison of

the Gini coefficients of household disposable income after taxes and income transfers via social security (equivalized disposable income per household member adjusted for household size) shows that Japan's Gini coefficient is larger than those of the Scandinavian countries, Germany and France, smaller than those of the USA and the UK, and on the same level as those of Spain, Portugal, Greece and other Mediterranean countries (Figure VI-5). The Ministry of Health, Labour and Welfare has also estimated and published Japan's poverty rate based on the calculation method employed by the OECD (Outline of the 2010 Comprehensive Survey of Living Conditions, II Income etc of various types of households, 7 Poverty rate, http://www.mhlw.go.jp/english/database/db-hss/dl/report_gaikyo_2010.pdf).

Figure VI-5 Gini Coefficient of Equivalized Household Disposable Income and S90/S10 Income Deciles in OECD Countries (2010)



Source: OECD (2013), "Crisis squeezes income and puts pressure on inequality and poverty". This note as well as all figures and underlying data can be downloaded via www.oecd.org/social/inequality.htm

Note: "Equivalized household disposable income" is the disposable income per household member, adjusted for household size.

Thus, income inequality in Japan cannot exactly be described as small compared to other OECD countries. Based on this situation, the "Comprehensive Reform of Social Security and Tax" (decided by the Cabinet in February 2012) includes the assertion that "Japan's society and social security system today (part omitted) face a number of problems, including those of poverty and income inequality, unfairness among the generations, and widening isolation and social exclusion. To address these problems, we are required to ensure the sustainability and strengthen the functions of the whole social security system, including pensions, healthcare, nursing and childcare". Various social security policies have already been adopted to reduce income inequality in addressing these policy challenges, such as increasing child allowance and raising the level of livelihood protection. As a result, the redistribution coefficient based on the Gini coefficient (i.e. the Gini coefficient before

redistribution *minus* the Gini coefficient after redistribution *divided by* the Gini coefficient before redistribution) has risen since around the mid-2000s. This shows that the income redistribution function of social security is working (Ministry of Health, Labour and Welfare, "2008 Survey Results on the Redistribution of Income"). However, because the ratio of family-related benefit expenditure (including benefits for households with children) to overall social security benefit costs is smaller than those of Scandinavian countries and France, as stated in 1 above, the redistribution coefficient in elderly households is larger and that in single-mother households is smaller.

Table VI-6 Closing of Income Gap through Income Redistribution (Gini Coefficient for Equivalent Incomes)

Year of survey	Gini coefficient				Rate of improvement in Gini coefficient		
	Equivalent initial income	(1) + social security benefits - social security contributions	Equivalent disposal income ((2) - tax)	Equivalent income after redistribution ((3) + benefits in kind)	Rate of improvement due to redistribution	Rate of improvement due to social security	Rate of improvement due to taxation
	(1)	(2)	(3)	(4)	*1	*2	*3
1996	0.376	0.327	0.312	0.310	17.7	13.7	4.7
1999	0.408	0.350	0.337	0.333	18.4	15.3	3.7
2002	0.419	0.337	0.323	0.322	25.3	19.9	4.3
2005	0.435	0.336	0.322	0.323	25.9	22.8	4.1
2008	0.454	0.343	0.327	0.319	29.7	26.2	4.7

Source: Summary Findings of the 2008 Income Redistribution Survey (Ministry of Health, Labour and Welfare).
Notes: 1) Rate of improvement due to redistribution = 1 - (4) / (1)
2) Rate of improvement due to social security = 1 - (2) / (1) x (4) / (3)
3) Rate of improvement due to taxation = 1 - (3) / (2)