Retirement Process of Older Workers in Japan: Perspectives from Legislative Frameworks and Human Resource Management

Tomohiko MORIYAMA

I. Work and retirement trajectories of older workers

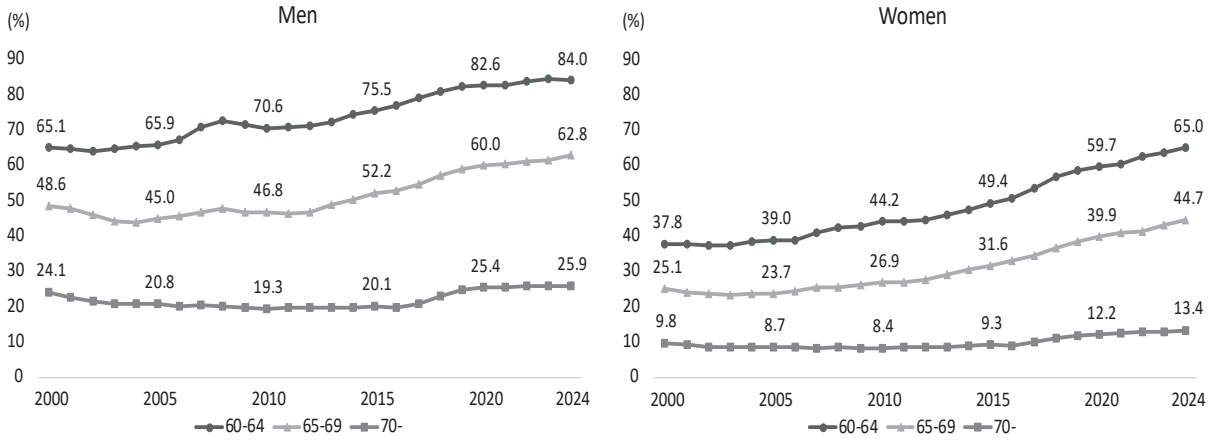
This paper explores the process by which the older workers exit Japan's labor market, focusing on employment systems and human resource management. In Japan, individuals aged 65 and older are classified as older persons, with those aged 65–74 referred to as the "young-old" and those 75 and older as the "old-old."[1] However, since many companies set the retirement age at 60, statistical analyses often focus on individuals aged 60 and older to more accurately reflect labor market trends.

Figure 1 illustrates employment rates for individuals aged 60 and older by gender and age group since 2000. In 2024, employment rates for men stand at 84.0% for those aged 60–64, 62.8% for those aged 65–69, and 25.9% for those aged 70 and older, while for women, the rates are 65.0%, 44.7%, and 13.4%, respectively.[2] With respect to workforce composition, individuals in their early 60s saw an increase from 2007 to 2012, while those in their late 60s grew from 2012 to 2017 (Figure 2). Since 2018, the proportion of workers aged 70 and older has risen sharply, now comprising 8% of the total workforce. This trend reflects the first baby boom generation continuing to work beyond 60.

The key factors contributing to this trend include increasing life expectancy, a rise in the eligibility age for pension benefits, and labor shortages. In particular, labor shortages and rising social security costs, driven by declining birthrates and an aging population, present significant challenges. While foreign workers and women are potential sources of labor, Japan's geographic isolation, linguistic distinctiveness, and relatively lower wages compared to other developed nations limit the feasibility of relying on immigrant labor. Furthermore, the employment rate of young and middle-aged women has remained consistently high, leaving little room for substantial growth. Given these constraints, there is growing expectation that older workers will play a key role in alleviating labor shortages and contributing to economic revitalization.

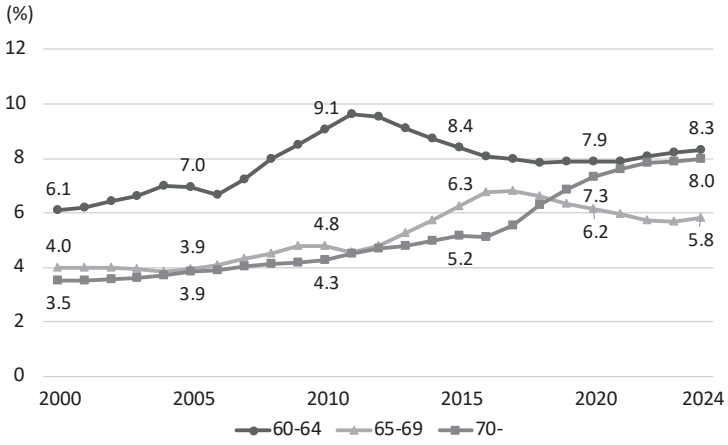
The retirement process in Japan varies significantly by gender. Traditionally, most men retired at 55 or 60.

1. The elderly population ratio, defined as the proportion of the population aged 65 and older relative to the total population, increased from 9.1% in 1980 to 17.4% in 2000 and further to 28.7% in 2020. Simultaneously, the ratio of the working-age population (ages 15–64) to the older population (ages 65 and older) declined from 7.4 working-age individuals per older person in 1980 to 2.1 in 2020.
2. The desired retirement age is also high. According to JILPT's 2019 survey, the most common response regarding desired or actual retirement age was "I want to work as long as I can, regardless of age" (32.1%), followed by "70 and older" (23.6%) and "65–69" (13.8%) (JILPT 2020).



Source: Statistics Bureau, Ministry of Internal Affairs and Communications (MIC), *Labour Force Survey*.

Figure 1. Employment rate among people aged 60 and older



Source: Same as Figure 1.

Figure 2. Share of workers aged 60 and older among all employees by age group

However, in recent years, the majority have continued working until 65, with many remaining employed beyond 66. The nature of employment has also evolved. In the past, the proportion of employed individuals over 60, particularly those over 70, was low due to high rates of self-employment in the past (Figure 3, left). More recently, employment rates have increased across all age groups, with regular employment[3] rising among those aged 60–64 but declining for those aged 70 and older (Figure 3, right). As a result, men in their early 60s are more likely to continue working as regular employees, while those in their 70s and older

3. The definition of employment status in the Labor Force Survey is based on the designation in the workplace. Regular employees are classified as those whose designation is "regular staff/employee," while non-regular employees are categorized under titles such as "part-timers," "part-time workers," "dispatched workers of labor dispatch offices," "contract workers," "temporary workers," and "others."

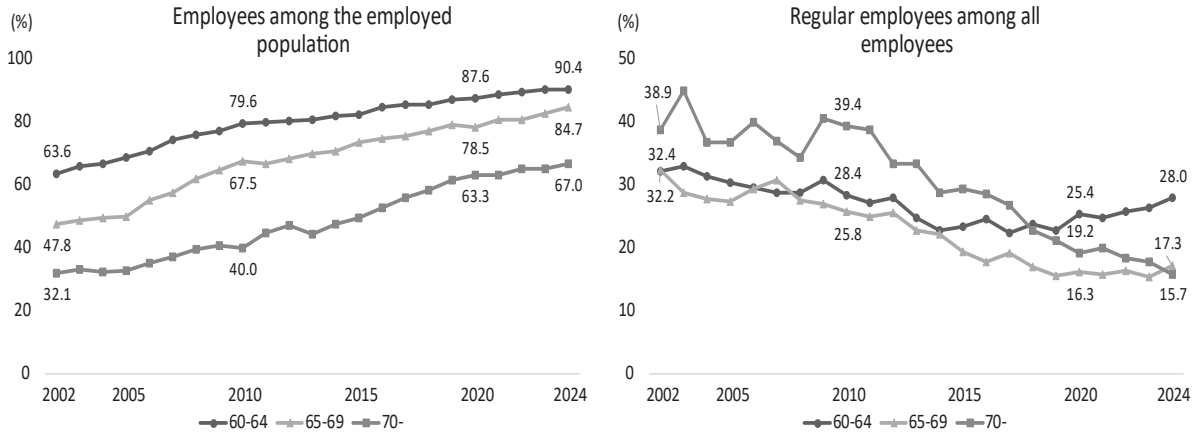
increasingly transition to non-regular employees.

In contrast, women's retirement decisions are influenced less by age and more by family-related factors such as their spouse's employment history, income, and savings. Although women who have worked as regular employees until the age of 60 often follow a retirement trajectory similar to that of men, relatively few remain in regular employment at that age. Women with sufficient savings and pension benefits tend to retire earlier, whereas others continue working, primarily in informal employment. This trend has become more evident in recent years (Figure 4).

Despite these gender-based differences, Japan's overall labor market exit pattern is characterized by a gradual transition through changes in employment status rather than an abrupt withdrawal, which contrasts with the Western retirement model, where many individuals exit the labor market at a predetermined age.

Source: Same as Figure 1.

Figure 3. Share of employees and regular employees aged 60 and older (Men)



Source: Same as Figure 1.

Figure 4. Share of employees and regular employees aged 60 and older (Women)

II. Changes in employment policies for older workers

Japan's employment policy for the older workers has traditionally focused on ensuring job security for regular workers within the internal labor market. Regular employees typically accept a work style that includes job transfers, overtime, and reassignment of duties under long-term stable employment, seniority-based wages, and extensive social security benefits. To manage turnover, companies have implemented a wage structure where employees receive wages below productivity at younger ages and above productivity at older ages (Lazear 1979). However, maintaining wages above productivity indefinitely is financially unsustainable, making the introduction of a mandatory retirement system necessary. This system determines the probability of retirement after the age of 60.

In the late 1940s, many Japanese companies adopted a mandatory retirement system, generally setting the retirement age at 55 to align with the age of eligibility for pension benefits at that time.[4, 5] This system was widely accepted by both labor and management, as it met managerial needs to regulate workforce composition while ensuring workers had guaranteed employment until retirement.[6]

Between 1954 and 1974, the age of eligibility for pension benefits gradually increased to 60, prompting workers to demand a corresponding extension of the retirement age.[7] By the early 1970s, extending the retirement age had become a central issue in employment policies for the older population. As a result, between the 1970s and early 1980s, the retirement age was incrementally raised, culminating in the enactment of the Act on Stabilization of Employment of Elderly Persons in 1986, which encouraged employers to set the retirement age at no less than 60.[8] The legislative amendment in 1994 made this requirement mandatory, and as of April 1998, no company could set a retirement age below 60. By 1999, 97.1% of companies had

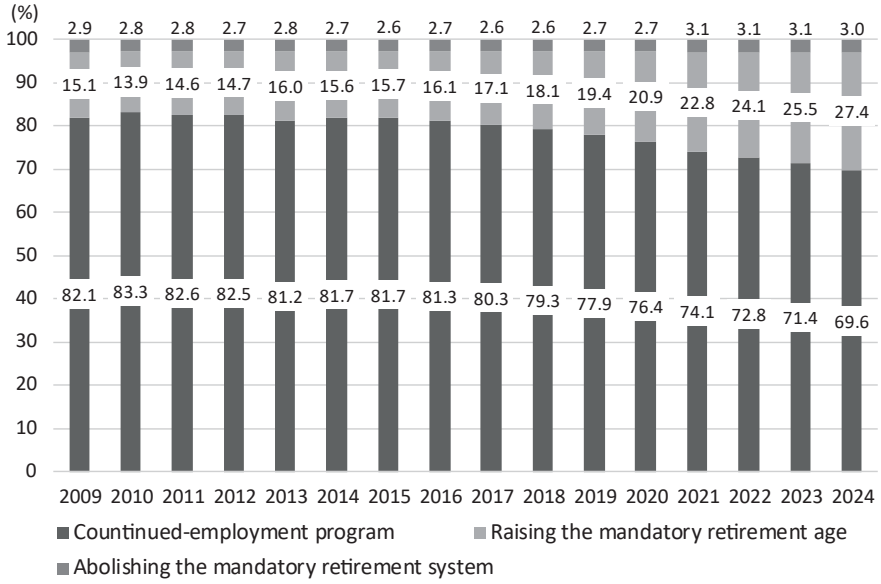
4. The discussion of pension systems in this section is based on Hamaguchi (2020).
5. The Workers' Pension Insurance Act, enacted in 1941, generally restricted pension benefits to individuals who had been insured for at least 20 years and retired at age 55 or older, primarily covering blue-collar workers in establishments with at least 10 employees. However, the amendment in 1944 to the Employees' Pension Insurance Act expanded eligibility to include white-collar workers, women, and employees in establishments with at least five workers.
6. In addition to retirement and pension systems, retirement policies also influence whether a worker remains in the workforce or exits the labor market. The passage of the Retirement Benefits and Retirement Allowance Act in 1936 mandated retirement savings for factories and mines with 50 or more workers. Although this law was repealed in 1944, a nationwide trend emerged from the mid-1940s onward, with workers increasingly demanding that companies provide retirement security. While companies initially resisted these demands, the introduction of a retirement allowance system alongside a mandatory retirement age gained traction, as it enabled firms to manage surplus personnel without resorting to layoffs. Consequently, the retirement allowance system spread rapidly (Owan and Suda 2009).
7. With the passage of the Employees' Pension Insurance Act in 1954, the pension eligibility age for men was set to gradually increase to 60. In practice, the age was raised by one year every four years, reaching 60 in 1973. Meanwhile, the eligibility age for women remained at 55 in 1954 but was subsequently raised to 60 between 1987 and 1999.
   Additionally, the Employees' Pension Insurance Act applied only to a specific category of workers, excluding employees in establishments with fewer than five workers and day laborers. To address this gap, the National Pension Act was enacted in 1959, introducing a universal pension system with an eligibility age of 65.
8. A significant legal reform concerning pensions was enacted in 1985. This amendment introduced a basic pension system and expanded coverage to include employees of establishments with fewer than five workers. Notably, the reform also introduced changes that were particularly significant for women. Prior to this amendment, unemployed wives were required to voluntarily enroll in the national pension and pay premiums to qualify for pension benefits. However, under the revised system, as long as their income remained below a specified threshold (1.3 million yen since 1993), they could qualify for pension benefits without paying premiums by being classified as dependents, a status known as category 3 insured persons. Additionally, by that time, the age limit for survivor's pensions had already been abolished.
   As discussed in the previous section, women's retirement decisions are often influenced more by their spouse's career than by their own. This phenomenon largely attributable to these pension systems.

adopted a uniform retirement age, with 91.2% setting it at 60 and 6.2% at 65.[9]

However, as the eligibility age for pension benefits continued to rise between 2001 and 2025, a gap emerged between retirement and pension payments. This discrepancy raised concerns about employment security for workers in their early 60s.[10] To address this issue, the government amended the Act on Stabilization of Employment of Elderly Persons, mandating companies to secure employment opportunities for older workers. The 1990 legislative amendment mandated efforts to ensure employment until the age of 65, while the 2000 revision introduced the option of raising the retirement age. In the 2004 amendment, the requirement to make efforts was further reinforced as a legal obligation. Consequently, employers with a retirement age below 65 were required to implement one of the following measures: (1) raising the mandatory retirement age, (2) introducing a continued-employment program, or (3) abolishing the mandatory retirement system. At that time, companies were allowed to exclude older workers who did not meet predetermined criteria established through labor-management negotiations.[11] However, the 2012 amendment eliminated this selection process, making it mandatory to retain all employees who wished to continue working.[12] In practice, over 80% of companies opted for a continued-employment program by 2017, a figure that remained at approximately 70% in 2024 (Figure 5). However, in recent years, the proportion of companies extending the mandatory retirement age has grown, with over 25% adopting a higher retirement age from 2023 onward.[13]

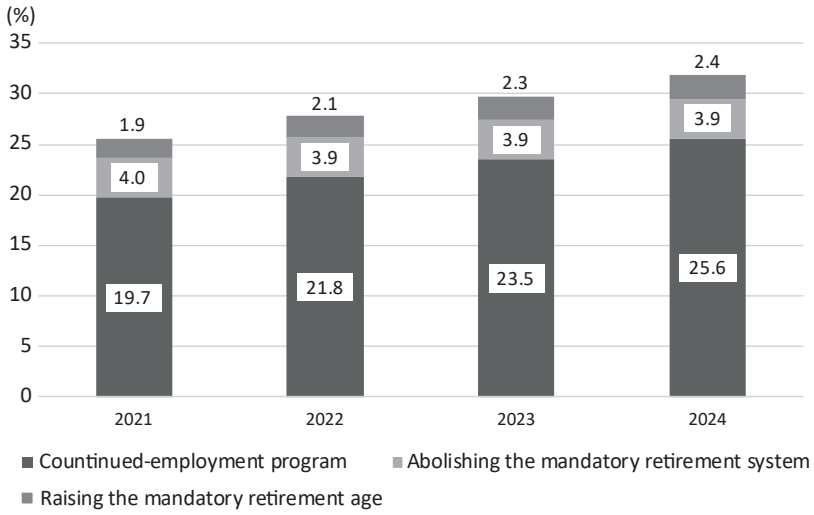
The 2020 amendment further expanded these provisions by requiring companies to make efforts to secure employment opportunities up to the age of 70. This measure took effect in April 2021. Under this legislative amendment, companies must implement one of five strategies: (1) raising the mandatory retirement age to 70, (2) abolishing the mandatory retirement age, (3) extending the continued-employment program to age 70,[14] (4) introducing continuous outsourcing contracts until age 70, or (5) enabling employees to engage in social contribution projects until age 70.[15]

9. "Employment Management Survey" (Ministry of Health, Labor and Welfare (MHLW)).
10. Discussions on raising the age of eligibility for pension benefits to 65 began in the 1970s. The 1994 amendment to the Act on Stabilization of Employment of Elderly Persons enacted an increase in the fixed-rate portion of the pension, while the 2000 amendment introduced an increase in the earnings-related portion. The fixed-rate portion was scheduled to rise for men in 2013 and for women in 2018, whereas the earnings-related portion was set to increase by 2025 for men and by 2030 for women.
    The 2000 amendment also introduced provisions for the acceleration of pension payments, while the 2004 amendment allowed for the deferral of payments. Under these provisions, early pension payments result in a reduced benefit, whereas deferred payments lead to an increased benefit, with these reductions and increases applying for the duration of the recipient's lifetime.
11. As of June 2006, only 39.1% of companies had extended continued employment to all applicants, while the majority applied it only to those who met specific eligibility criteria.
12. These legal reforms significantly contributed to the promotion of employment among older workers. Kondo and Shigeoka (2017) analyzed the effects of the 2004 legislative amendment and found that the employment rates of 60- and 61-year-olds were higher among the 1946-born cohort, which was subject to the amendment, compared to the unaffected 1945-born cohort, with an increase ranging from 2.4% to 3.2%. Similarly, a comparison of the employment rates of men born in 1953, who were subject to the 2012 amendment, with those of men born in 1952, who were not affected by the amendment, showed that the employment rate of regularly employed men at age 59 increased by 7% annually (Yamada 2017).
13. One of the measures implemented to encourage companies to continue employing older workers is the Continuous Employment Benefits for the Elderly, established in 1995. Under this system, if a worker's wages decrease to less than 75% of their earnings at age 60 (initially set at 85% when the program was introduced), they receive a benefit equivalent to 15% of their wages (originally 25%). This benefit will remain in effect until March 2025, after which the rate will be reduced to a maximum of 10%.
    Furthermore, if a company fails to implement appropriate measures to ensure continued employment, the government may issue a corrective action recommendation. If the company does not comply, it may face penalties, including public disclosure of its name, restrictions on job postings at the public employment service, or denial of government subsidies, as deemed necessary.
14. In addition to employers with special relationships, this also includes those employed by other employers.
15. Social contribution project includes an initiative carried out either directly by the employer or through an organization commissioned or financially supported by the employer.



Source: The Ministry of Health, Labour and Welfare (MHLW), "Report on the Status of Employment of the Elderly."
Note: The values represent establishments with 31 or more employees.

Figure 5. Measures to secure employment until age 65



Source: Same as Figure 5.
Notes: 1. The values represent establishments with 21 or more employees.
2. The "Introduction of Measures to Support Start-ups," which includes the establishment of systems for outsourcing contracts and provisions allowing employees to engage in social contribution projects, is also classified as a measure to secure employment. The proportion of companies implementing these measures remained consistently at 0.1% over all four years.

Figure 6. Measures to secure employment until age 70

Approximately 30% of companies have implemented measures to secure employment opportunities for individuals up to the age of 70 (Figure 6). Among these measures, the continued-employment program

remained the most prevalent in 2024, covering 25.6% of employees, followed by the abolition of the mandatory retirement age at 3.9% and the extension of the mandatory retirement age at 2.4%. Only a small number of companies have introduced initiatives to support the establishment of new businesses as an alternative employment measure.[16]

III. Changes in working style and wage associated with continued employment

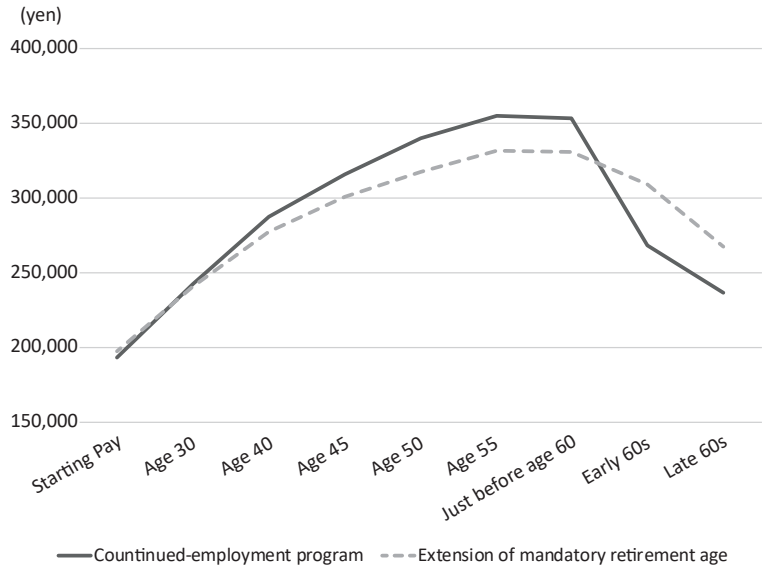
These employment security measures are not readily accepted by companies, as they are likely to increase labor costs. How, then, have firms responded to these system reforms? This response is closely linked to the widespread adoption of the continued-employment program by many companies. While the continued-employment program mandates that all applicants maintain their employment, it does not stipulate specific employment conditions. When the retirement age is extended, the employment contract of a regular employee must also be extended accordingly. In contrast, the continued-employment program entails terminating a regular employee's contract and re-hiring them as a non-regular employee, making it easier to adjust their wages and job responsibilities compared to extending the retirement age. This flexibility allows companies to manage labor costs more effectively.

Empirical data support this discussion. According to a company survey conducted by JILPT in 2019, companies that implement the continued-employment program experience a greater decline in wages around the age of 60 compared to those that extend the mandatory retirement age. On average, firms adopting the continued-employment program report a wage reduction of approximately 24% at age 60 (Figure 7). Similarly, Yamada (2009) found that nearly half of firms utilizing the continued-employment program impose a wage reduction of 40% or more at this age.

The rationale behind these wage reductions is linked to changes in job content and responsibilities around the age of 60. Table 1 compares these changes between firms that adopt the continued-employment program and those that extend the mandatory retirement age. Among companies implementing the continued-employment program, 46.1% reported that while job descriptions remained the same as before age 60, employee responsibilities were reduced. This reduction in responsibility often involves exempting senior employees from management positions, relocation, or overtime work. For these reasons, many companies have implemented wage reductions for their employees. Nevertheless, despite lower wages, the working conditions of re-employed workers remain superior to those of part-time and other non-regular workers. From the perspective of dual labor market theory, this approach suggests that firms have responded to legislative amendments by establishing a new peripheral market within the internal labor market, effectively positioning re-employed workers between core employees and peripheral workers in the external labor market.

According to previous judicial precedents, re-employment after retirement can, in itself, serve as a justification for reduced working conditions. When permanent employees with open-ended contracts are re-employed after retirement under fixed-term contracts, even if their job content and responsibilities remain unchanged, the mere fact of their re-employment after retirement is considered a valid factor in determining

16. In addition to these systems, the earnings-related pension for working elderly also impacts the employment of older individuals. This system reduces pension benefits for those who continue working beyond the standard pensionable age. Specifically, full pension payments are provided until the combined total of wages and welfare pension benefits reaches 500,000 yen per month (as of FY2024). If this threshold is exceeded, half of the excess amount is withheld. The system has been the subject of ongoing debate, with some arguing that it disincentivizes older individuals from remaining in the workforce, while others contend that it suppresses wages for older workers.



Source: JILPT 2021, Chap.4, Figure 4-3-1 Measures to secure employment and the distribution of jobs and wages among older workers: Effects on average wages of older workers.
Note: The vertical axis represents the estimated monthly income, calculated based on the average monthly salary at the starting salary and the average monthly salary at each age, with the starting salary indexed at 100.

Figure 7. Comparison of wage profiles across different continuous employment structures

Table 1. The relationship between measures to secure employment and changes in work and responsibilities before and after mandatory retirement around age 60

(%)

	Same work			Partially different work	Completely different work	Other	No response	N
	Same responsibility	Lighter responsibility	Heavier responsibility					
Mandatory retirement at age 65	68.0	14.4	0.4	3.6	0.2	0.4	13.1	1,033
Continued employment program	36.5	46.1	0.4	6.4	0.6	0.7	9.3	4,218

Source: JILPT 2021, Chap.3. “Factors and their impact on the system of continued employment until age 65.”

that the reduction in working conditions is reasonable (Kurashige 2021).[17]

While these approaches are practical for firms, they may lead to a decline in motivation among re-employed workers. Many companies struggle to maintain the motivation of employees who continue working under these conditions. In fact, companies that implement the continued-employment program express greater concern about the low work motivation of senior employees compared to those that extend the mandatory retirement age (Moriyama and JILPT 2022, Chap. 2). The gradual increase in the number of firms adopting

17. Judicial precedents emphasize the importance of labor-management negotiations in defining the expected roles of employees working under continued employment, their contributions, and their treatment. The content of these discussions, the structure of the negotiations, and whether an agreement is reached all influence the assessment of whether the treatment is deemed reasonable.

extended retirement in recent years, as shown in Figure 5, likely reflects an effort to mitigate this decline in employee motivation.

IV. Future issues

Japan's employment policies for older workers have functioned effectively thus far, although challenges such as declining motivation persist. Nevertheless, demographic shifts, including a declining birthrate and an increasingly aging society, are expected to intensify in the future. Policies such as establishing a mandatory retirement age of 65 and extending employment opportunities until age 70 are under consideration, yet their implementation remains uncertain due to the potential financial burden they may place on companies. The Japanese government has also remained cautious about raising the age of eligibility for pension benefits beyond 65.

A critical issue for the future is the aging of the second baby boom generation, who will reach the age of 60 in the 2030s. Unlike the first baby boom generation—many of whom entered their 60s with stable incomes, sufficient pensions, and substantial savings due to Japan's previous economic growth—the second baby boom generation has faced prolonged economic stagnation since the 1990s. As a result, an increasing number of individuals in this cohort are expected to lack adequate financial reserves for retirement and will need to remain in the workforce beyond the age of 60 to cover their living expenses. Consequently, issues such as unemployment and poverty among the older population, which have thus far received relatively little attention compared to challenges faced by younger generations, are likely to become more pronounced.

Japan's employment policy for older workers has long been centered on maintaining job security within the internal labor market, and this fundamental strategy is expected to persist. However, addressing unemployment among the older population will require expanding the external labor market to facilitate job transitions, outplacement, and reskilling opportunities. Immediate measures must be implemented to ensure that individuals who need to continue working for financial reasons can access employment opportunities regardless of age, while also addressing broader concerns such as health, housing, and social security to ensure a stable and dignified standard of living.

References

Hamaguchi, Keiichiro. 2020. *Nenkin hoken no rodo-ho seisaku* [Labor Law Policies on Pension Insurance]. JILPT Labor Policy Report no. 13. Tokyo: JILPT.

JILPT (Japan Institute for Labour Policy and Training). 2020. *60 dai no koyo seikatsu chosa* [Survey on employment and living of people in their 60s]. JILPT Research Series no. 199. Tokyo: JILPT.

———. 2021. *70 sai shugyo jidai no tenbo to kadai: Kigyo no keizoku koyo taisei to kojin no kyaria ni kansuru jisho bunseki* [Outlook and challenges for an era of working until age 70: Empirical analysis of enterprises' continuous employment systems and individual careers]. JILPT Research Report no. 211. Tokyo: JILPT.

Kondo, Ayako, and Hitoshi Shigeoka. 2017. "The Effectiveness of Demand-Side Government Intervention to Promote Elderly Employment: Evidence from Japan." *Industrial and Labour Relations Review* 70 (4): 1008–1036.

Kurashige, Kotaro eds. 2021. *Nihon ban doitsu rodo doitsu chingin no riron to kigyo taio no subete* [An overview of Japan's version equal pay for equal work]. Tokyo: Rodo Kaihatsu Kenkyukai.

Lazear, Edward. 1979. "Why is There Mandatory Retirement?" *Journal of Political Economy* 87 (6): 1261–1284.

MHLW (Ministry of Health, Labour and Welfare). 2021–2024. "Konenreisha koyo jyokyo to hokokusho" [Report on the employment condition of the elderly persons].

Moriyama, Tomohiko and Japan Institute for Labour Policy and Training (JILPT). 2022. *70 sai shugyo jidai ni okeru konenreisha koyo* [Employment of older adults in an era of working until age 70]. JILPT Fourth Term Project Research Series no. 1. Tokyo: JILPT.

Owan Hideo, and Toshiko Suda. 2009. "Naze taishoku-kin ya shoyo seido wa arunoka" [Why do Japanese firms offer retirement allowance and semiannual bonus?]. *Japanese Journal of Labour Studies* no. 585: 18–25.

Yamada, Atsuhiro. 2009. "Koreisha shugyoritsu no kitei yoin: Teinen seido, chingin purofairu, rodo kumiai no koka" [Determinants

of older worker labor force participation rates in Japan: Impacts of retirement policy, steep age-wage profile, and trade union]. *Japanese Journal of Labour Studies* 51 (8): 4–19.

———. 2017. "Nenkin shikyu kaishi nenrei hikiage ni tomonau shugyoritsu jyosho to shotoku no kuhaku: Kosei rodo sho 'Chukonen sha judan chosa 2014' ni motozuku bunseki" [Rising employment rates and no-income periods accompanying increases in the age of eligibility for pension payments: An analysis based on the MHLW's 'Longitudinal Survey of Middle-Aged and Older Persons']. In *Jinko gensho shakai ni okeru koreisha koyo* [Employment of older persons in a society of population decline]. JILPT Third Mid-term Project Research Series no. 2, 194–229. Tokyo: JILPT.

Tomohiko MORIYAMA
Researcher, The Japan Institute for Labour Policy and Training.
https://www.jil.go.jp/english/profile/moriyama.html