

The Current Status and the Challenges of the Employment of Elderly People

Introduction

Objectives and Overview of the Study

In March 2012, the Japan Institute for Labour Policy and Training (JILPT) published a six-volume project research series to provide general readers with an introduction to the outcomes of the six research projects that it undertook during its second target period (the five years from FY2007 to FY2011). This is an English translation of an overview of the content of the first volume, which deals with the current status of the employment of elderly people and its related issues.

The name of the JILPT project under which this study was conducted is “A Study of Approaches to a Society with Full Participation amid Population Decline” and the research was carried out with the objective of examining how the decline in the total labor force can be curbed in Japan, where the expected decline has already set in. More specifically, it established three sub-themes - elderly people, women and young people - and examined approaches to employment promotion in regard to each group. This first volume discussed the outcomes of studies focusing on the sub-theme of the employment of elderly people. It differed slightly from the rest of the project research series in that a great deal of it was newly written, as it had been difficult to compile a whole book from the research output of the past four years alone.

This volume is an essay that endeavors to surmise the future prospects based on the current status of the employment of elderly people, examining such matters as the issues that must be tackled in order to secure further employment in due course and, as a task for the future, how to achieve employment past the age of 65. One of the points of contention that forms the premise of this paper is the issue of promoting the employment of elderly people in a way that enables elderly people to help to support society, bearing in mind discussions around the intergenerational burden

of social security. However, this paper has pursued approaches to the employment of elderly people based on as positive an attitude as possible, rejecting the conventional idea that elderly people should work in their older years because pensions are inadequate, and instead considering that elderly people work to give them a purpose in life and to be part of the workforce supporting a company, making use of the skills and knowledge that they have cultivated themselves.

I. The Current Status of the Employment and Lives of Elderly People, Corporate Employment Management Initiatives, and its related Issues

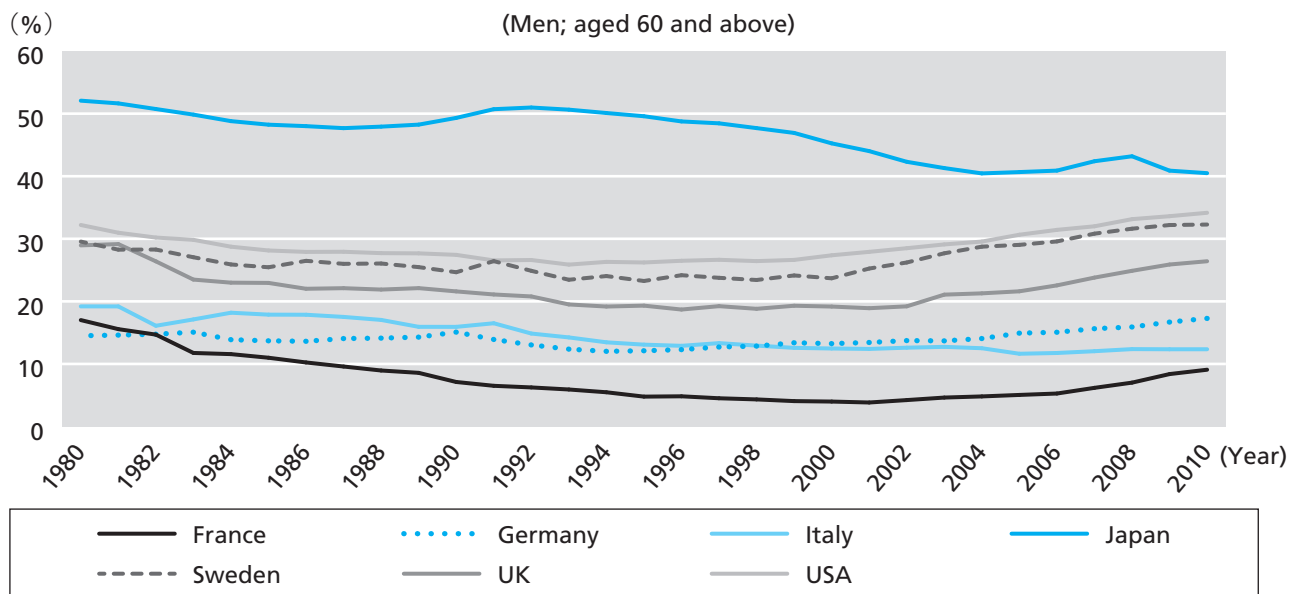
1. The Current Status of the Employment of Elderly People and Approaches to Employment Past the Age of 65

This chapter elucidates the current situation of the employment of elderly people and their attitudes to employment, with the objective of summarizing the information that forms the background to the analyses that were carried out in the subsequent chapters. Moreover, it narrowed down the focus onto employment past the age of 65 in particular, as an issue to tackle to promote the employment of elderly people in the future, and analysed the challenges to be faced in promoting employment past 65 and the points that should be taken into consideration.

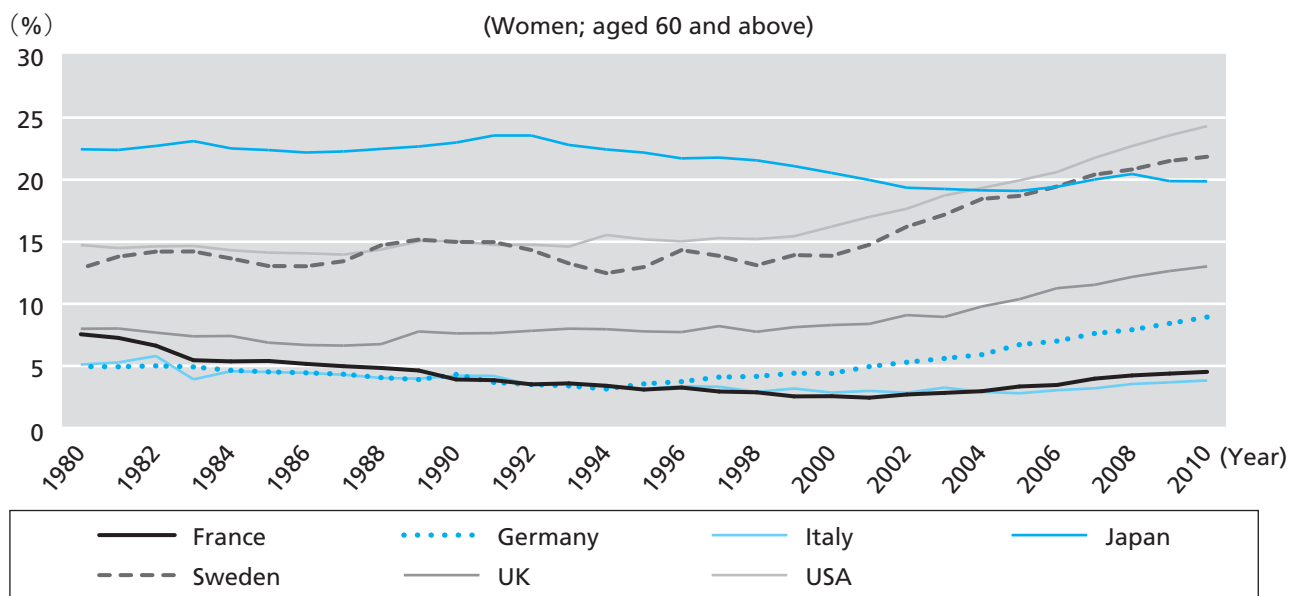
Firstly, looking at the situation on an international level, it is quite common for elderly people of Japan to work. In particular, in the case of men, the labor force participation rate among those aged 60 and above is the highest among all developed countries. On the other hand, in the case of women, the labor force participation rates among those aged 60 and above in the USA and Sweden overtook the rate of Japan in the early to mid-2000s and remain higher today (I-1).

Next, let us look at the current status of mandatory retirement age systems and continued employment

I-1 International Comparison of the Labor Force Participation Rate of Elderly People



Source: Figures for 1980-2010 from LABORSTA "Economically Active Population Estimates and Projections 1980-2020" (Data as of September 5, 2011)



Source: Figures for 1980-2010 from LABORSTA "Economically Active Population Estimates and Projections 1980-2020" (Data as of September 5, 2011)

systems at companies. Reflecting the effects of the revised Act on Employment Security of Elderly Persons that came into effect in April 2006, more than 90% of companies currently set their mandatory retirement age at 60 and implement a continued employment system up to the age of 65 (I-2).

In response to such improvements of employment

systems at companies, the labor force participation rate of elderly people in Japan has been rising at a considerable pace since 2006. Hitherto, there had been a long-term decline in the labor force participation rate among both those in the 60-64 age bracket and the 65- and-above bracket, but this downward trend halted in around 2005 and began to

I-2 Existence of a Maximum Employment Age Where a Uniform Mandatory Retirement Age Has Been Set and Employment Takes Place Via an Extended-employment or Re-employment System, and the Age That has Been Set

(As of January 2011, %)

Post-retirement-age measures, company scale	Companies with a uniform mandatory retirement age & a post-retirement-age system		Companies that stipulate a maximum employment age						Companies that do not stipulate a maximum employment age
			64 years	65 years	66 or over	(Reprinted) 65 or over			
Extended-employment system									
Total	[20.0]	100.0	56.2	(100.0)	(7.3)	(73.9)	(17.1)	(91.1)	43.8
1,000 people or more	[8.7]	100.0	75.7	(100.0)	(3.5)	(85.1)	(7.7)	(92.8)	24.3
300-999 people	[9.1]	100.0	68.5	(100.0)	(9.0)	(79.7)	(11.3)	(91.0)	31.5
100-299 people	[14.4]	100.0	59.4	(100.0)	(7.6)	(82.7)	(9.8)	(92.4)	40.6
30-99 people	[23.0]	100.0	55.0	(100.0)	(7.2)	(71.7)	(19.0)	(90.7)	45.0
Re-employment system									
Total	[83.9]	100.0	79.0	(100.0)	(7.0)	(87.4)	(5.0)	(92.4)	21.0
1,000 people or more	[93.6]	100.0	95.1	(100.0)	(7.6)	(88.9)	(2.3)	(91.2)	4.9
300-999 people	[94.6]	100.0	92.3	(100.0)	(9.6)	(86.9)	(3.0)	(89.9)	7.7
100-299 people	[91.4]	100.0	84.9	(100.0)	(8.0)	(86.7)	(4.8)	(91.4)	15.1
30-99 people	[80.3]	100.0	75.1	(100.0)	(6.2)	(87.7)	(5.4)	(93.1)	24.9

Source: Ministry of Health, Labour and Welfare "General Survey on Working Conditions" (2011)

Notes: 1) Figures for "extended-employment system" and "re-employment system" include "combined use of both systems".

2) Figures in brackets [] indicate the proportion of companies with a uniform mandatory retirement age system that have an extended-employment system or re-employment system (or the both).

3) Figures in parentheses () indicate the proportion among companies that have stipulated a maximum employment age.

rise at quite a rapid pace among the 60-64 age bracket from 2006 onward. Moreover, the figure for those aged 65 and over has remained steady and has not declined further since then. Furthermore, looking at quantitative changes in employment and employees, the number of elderly workers or plus self-employed persons has been increasing at a higher rate than averaged trend among all age brackets, so it can be said that the employment of elderly people has improved relative to the situation in other age brackets.

Based on the broad overview above, the current status of the employment of elderly people in Japan is not bad overall. However, there are a number of issues to be tackled in further promoting the employment of elderly people in the future. The five main assertions of this chapter are as follows.

Firstly, it is necessary to develop a mechanism that enables people to continue working past the age of 65. According to the results of a study concerning the employment of elderly people by companies, which the JILPT conducted in 2008, 62.1% of companies were neither implementing a system to secure employment past 65, nor considering the introduction of such a system. In relation to this, elderly people of Japan are healthy and enjoy considerable longevity, even when viewed at an international level. Moreover, elderly people who have passed the age of 65 still have sufficient motivation to work and vocational awareness, and the number of those wishing to work in order to give them a purpose in life is also growing. Consequently, it would seem to be essential to create a mechanism that would allow those above the age of 65 who so

I-3 Approaches to the Employment of Elderly People Past the Age of 65 (60-69 Years, Totals for Men & Women)

(%)

	Total	Strongly agree	Somewhat agree	Neither agree nor disagree	Somewhat disagree	Strongly disagree	No response
There are various ways in which elderly people can support society, other than work	100	28.8	54.8	14.2	1.8	0.3	4.7
There are considerable variations between individuals after the age of 65. A mechanism that takes into account the fact that some people cannot work should be created	100	44.1	43.9	9.4	2.1	0.5	4.3
Pension payments are inadequate, so one must continue working after the age of 65	100	15.4	35.5	32.5	13.1	3.5	4.4
Work gives people a purpose in life. One cannot achieve this through one's hobbies	100	6.0	20.1	41.5	25.1	7.2	4.4
Elderly people can still help to support their company. A society that enables them to play an active role should be created	100	29.1	46.9	17.3	5.8	0.9	4.4

Source: JILPT "Survey of the Employment Status of Elderly People, Including Continued Employment" (2012)

desire to work as well. Having said that, elderly people themselves are not thinking only of jobs. Moreover, they would wish for a society that flexibly accepts the differences between individuals, which expand as they age (I-3). To what extent policies can flexibly respond to the diversity desired by elderly people will be a major key.

Secondly, it emerged that there is a slightly downward trend in the long term in employment of elderly people aged 65 and over, due to a considerable decline in self-employed and family workers. Since the end of 1990s, the number of self-employed and family workers in Japan has decreased considerably and hence the total number of workers has declined; this change in the employment structure has been affecting some elderly people. These structural changes could well become a problem in due course, in regions with a higher proportion of self-employed and family workers. It was pointed out, therefore, that creativity and efforts will be required, focusing on nurturing small employment opportunities within the community and initiatives to promote self-employment and a

return to agriculture involving whole towns.

Thirdly, the data analysis was focused on the fact that the employment structure of elderly people changes as they age. First of all, in macro terms, when elderly people reach the age of 60, their employment status (regular employee, part-timer, contract worker, etc.) changes considerably. It was ascertained that the degree of the change has been growing in recent years (I-4), but that, on the other hand, the change taking place among those in their late 60s is small, as is the change in the component ratio by occupation; these trends have not been changed greatly compared with the past. Taking into consideration both these facts and also the results from the data showing that, among those with no occupation who wish to be in employment, the number of people in the 60-and-above age bracket who desire short-time work increases, it was pointed out that even if initiatives focusing on establishing a mandatory retirement age of 65 were commenced in due course, it would be necessary to diversify the ways of working of regular employees – at least for those aged 60 and above – and

I-4 Changes in the Employment Component Ratio as People Get Aged (Data by Employment Status; Cohort Analysis)

(%)

Men	1987-1997	1997-2007
55-59 years → 60-64 years	20.48	36.52
60-64 years → 65-69 years	14.71	21.92
(Reference) 60-64 years → 65 and above	21.10	24.01

Women	1987-1997	1997-2007
55-59 years → 60-64 years	9.48	16.79
60-64 years → 65-69 years	11.02	7.64
(Reference) 60-64 years → 65 and above	17.30	16.41

Total for men & women (reference)	1987-1997	1997-2007
55-59 years → 60-64 years	16.33	28.53
60-64 years → 65-69 years	12.26	15.92
(Reference) 60-64 years → 65 and above	19.13	19.70

Source: Ministry of Internal Affairs and Communications “*Employment Status Survey*” (editions for the years 1987, 1992, 1997, 2002, and 2007)

Notes: 1) The data above are based on the employment status whose classifications are as follows: self-employed workers, family workers, private sector executives, regular staff members or employees, part-time workers, *arubaito* (casual work), *shokutaku* (special fixed-term employee), dispatched workers, and others.

2) With regard to the calculation method, the component ratio (percentage) of each employment status (or occupation) was calculated as a share of the total number of employed persons and the results were then compared with the data for the same cohort five years previously, the change in the component ratio calculated as an absolute value if a negative value resulted. This change was totaled for all employment statuses (occupations) and the resultant sum was then divided by two.

to revise employment management system to make it more flexible, by such means as introducing short-time work even for those in specialist or managerial posts.

Fourthly, changes in employment status resulting from aging was examined from a micro perspective; the changes by subsequent re-employment route (whether they engaged in continued employment at the same company, or underwent job placement to another company, or found the job by themselves) among those who were employees at the age of 55 ascertained that continued employment systems fulfilled an important function in quantitative terms, as a means of securing employment. However, it was also discovered that about the same number of people found the job by themselves. The importance of the government support for the re-employment of elderly people was thus affirmed once again (I-5-1, I-5-2).

Finally, problems peculiar to women were examined. As a result, it was ascertained that the proportion of elderly women who cannot obtain a job due to family health problems (such as household nursing care) has been rising over the past 20 years.

This will not instantly be the reason why the labor force participation rate among elderly women in Japan is not growing when seen at the international level, but as long as path dependent effects exist, the decline in the labor force participation rate at certain ages should have an effect on the subsequent rate in some years. We would like to continue to observe trends in the future, to see how the problem of the burden of providing long-term nursing care among families will change as a result of the development of the policies on long-term nursing care.

2. Initiatives concerning Corporate Personnel Management Pertaining to Job Security Measures and Relevant Issues

This chapter uses the “Survey on the Employment of Elderly People” (hereinafter referred to as the “JILPT Survey of Companies”) carried out by JILPT in 2008 to elucidate the reality of the continued employment systems for workers in their early 60s that are currently being implemented by companies (content of the job and conditions of employment),

I-5-1 Share of the Employment of Elderly People by Re-employment Route (Men)

Total	In employment with no period of being unemployed or idle						Re-employment after being unemployed or idle	Retirement
5,924 100.0%	3,822 64.5%						1,010 17.0%	1,092 18.4%
Breakdown	Same company	Continued employment	Job placement	Entrepreneurship	Sideline business, etc.	Searching on one's own		
4,832 100.0%	990 20.5%	1555 32.2%	520 10.8%	138 2.9%	136 2.8%	483 10.0%	1,010 30.9%	

Note: Of the 6,412 respondents, this shows the results for 5,924 people, excluding those whose current employment situation is unclear.

I-5-2 Share of the Employment of Elderly People by Re-employment Route (Women)

Total	In employment with no period of being unemployed or idle						Re-employment after being unemployed or idle	Retirement
4,206 100.0%	2,244 53.4%						640 15.2%	1,322 31.4%
Breakdown	Same company	Continued employment	Job placement	Entrepreneurship	Sideline business, etc.	Searching on one's own		
2,884 100.0%	1,082 37.5%	637 22.1%	55 1.9%	8 0.3%	176 6.1%	286 10.0%	640 32.1%	

Note: Of the 4,636 respondents, this shows the results for 4,206 people, excluding those whose current employment situation is unclear.

focusing on differences in trends by industry type and company scale. Moreover, the characteristics of companies that implement continued employment without a significant drop in wages even after the mandatory retirement age were analyzed, along with the requirements for continued employment systems. The age at which payments of the earnings-related component of the employees' pension commence will be raised in 2013, and the livelihood support functions played by public benefits in regard to those in their early 60s will gradually decrease in future. Amid this situation, the analysis of the latter was carried out from the perspective of whether companies will be required to pursue personnel management that minimizes wage fluctuations after reaching the mandatory retirement age, from the viewpoint of maintaining and increasing the motivation of working seniors.

As a result, firstly, it was ascertained that the larger the company, the more likely it was to have established criteria relating to those eligible for the continued employment system, and the more likely it was that only those who met those criteria were employed via continued employment. However, these criteria are not "selection" criteria wherein, for example, at least half of those desiring continued employment will not ultimately be employed; rather, they include such matters as "no obstacles from a health perspective" (set by 91.1% of companies that set criteria (72.2% of all respondents) according to the JILPT Survey of Companies), "has the desire and motivation to work" (90.2% of companies setting criteria), "attendance and attitude to work" (66.6% of such companies), "can reach a mutual agreement concerning the content of duties proposed by the company after shifting to continued employment"

(53.2% of such companies), and “achieving a certain level in performance appraisals” (50.4% of such companies). Looking at the proportion of those who actually engaged in continued employment, although the figures are lower among companies with criteria than among those without, there is not a great difference between them.

Secondly, looking at the status of the implementation of continued employment among those in their early 60s based on the aforementioned survey, one can, broadly speaking, identify two contrasting groups by industry type. The first is the group that includes finance and insurance, and information and communications, which has such characteristics as criteria for those eligible for the system being set by 80-90% of companies, a comparatively large number of cases of jobs not being continued after reaching the age of 60, most of those taking up continued employment being employed in a capacity other than that of regular employee, and a comparatively large number of companies facing issues relating to the employment of elderly people, including the handling of staff in managerial posts. The factor common to the industry types in this group is that the proportion of employees in their late 50s, close to the mandatory retirement age, accounted for by staff in clerical posts, for which there is particularly low labor demand, is high in comparison with other industries.

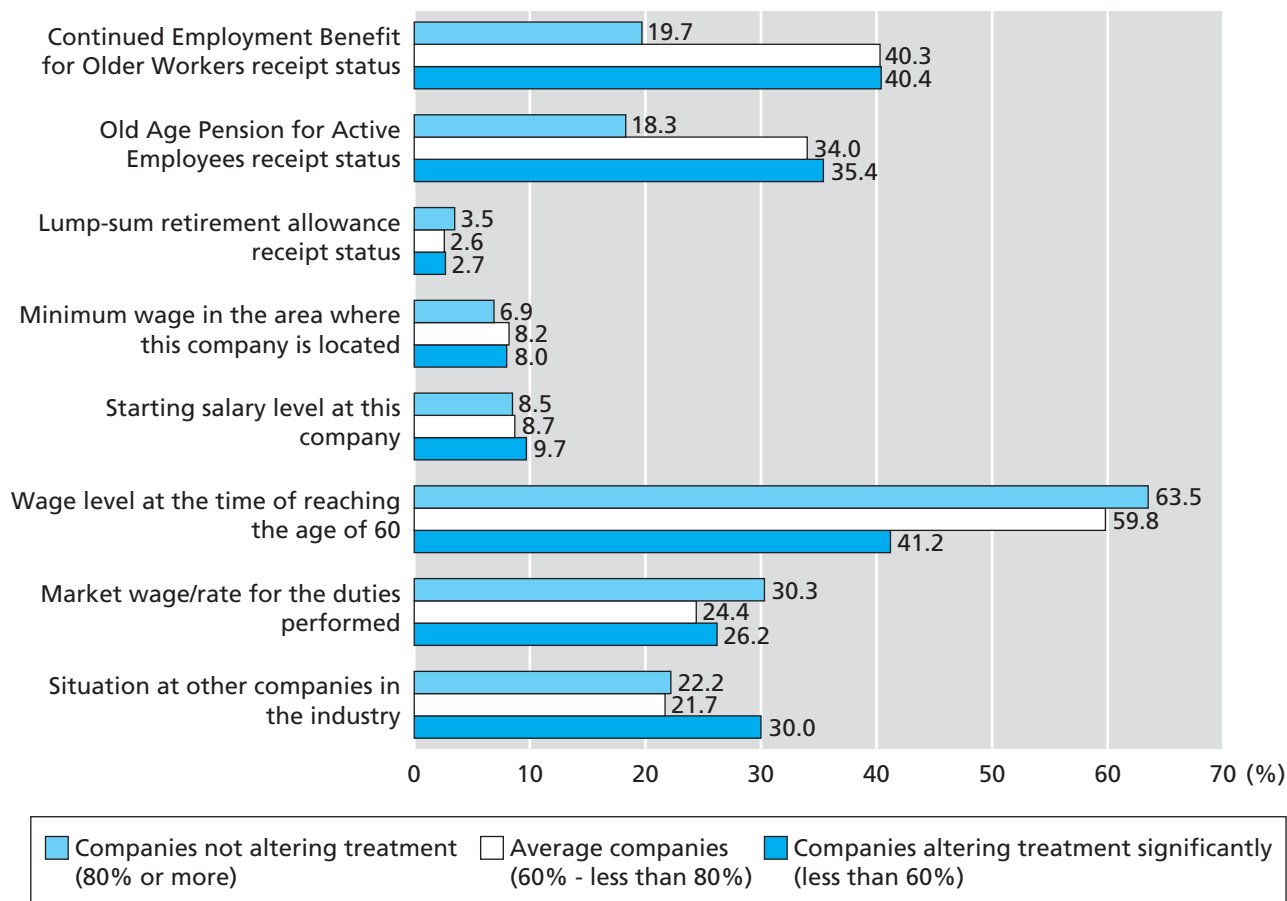
The other group is the group that includes medical care and welfare, education and learning support, and transport, which has such characteristics as criteria for those eligible for the system being set by just 60% or so of companies, a comparatively large number of cases in which jobs are continued due to the staff member's expertise, skills and experience at the age of 60 being valued, and a relatively large number of companies not facing issues in promoting the employment of elderly people. The industry types in this group feature a relatively large proportion of workers in their late 50s who are employed in specialist or technical occupations or jobs in transport or communications, and it is thought that this structural characteristic by occupation in their late 50s is linked to features relating to measures to secure employment and the content of personnel management for those in their early 60s.

Thirdly, companies that set the wage level for those in continued employment in the early 60s age bracket at 80% or more of the level at the time the employee reached the mandatory retirement age have been described as “companies not altering treatment” and their characteristics have been examined. In general, in the continued employment of workers following mandatory retirement, almost half of all companies set the wage level at between 60% and less than 80% of the level at the time the employee reached the mandatory retirement age. In relation to this, looking at the characteristics of personnel management at companies not altering treatment, few companies take into consideration the amount of Continued Employment Benefit for Older Workers or Old Age Pension for Active Employees paid to the worker after they take mandatory retirement, with approximately 60% of companies determining wages with reference to the wage level at the time the employee reached the age of 60 (I-6). Moreover, many of these companies do not set criteria for determining who will be eligible for continued employment. Even if criteria are set, they attach importance to such matters as the employee being able to continue doing their current job, having skills and abilities based on proficiency and experience, or having specialist qualifications. At such companies not altering treatment, those engaging in continued employment are required to demonstrate more expertise, proficiency and experience in the same job as they had before reaching the mandatory retirement age.

Dividing the companies into groups by wage level for those in continued employment (less than 60% of the level at the time the employee reached the mandatory retirement age, 60% - less than 80% (average companies), and 80% or more (companies not altering treatment)), and examining the wages curve for each company group, one can see that shape of the curve for companies not altering treatment is such that the apex is reached at the age of 55, in which respect it does not differ greatly from the curves for companies that impose a larger reduction in wages, but the degree to which seniority-based pay is involved is weaker.

Moreover, when a statistical analysis was

I-6 Points Considered When Determining the Wage Level of Employees Engaging in Continued Employment after Reaching the Mandatory Retirement Age at 60: by Wage Level of the Employee Concerned (Multiple Responses Permitted)



conducted to examine the characteristics of personnel management measures at companies not altering treatment, it was ascertained that, while companies not altering treatment do not often implement terms of office or a mandatory retirement age system for managerial personnel, they more frequently implement such measures as the introduction of new duty shifts, such as short-time work. On the other hand, there is not a great disparity between companies not altering treatment and other companies with regard to such matters as the development of jobs for elderly people.

The first thing that one can say from the results of the analysis above is that, in the case of large corporations where more people reach the mandatory retirement age each year, and industries in which

there is a high proportion of employees in their 50s who are engaged in occupations for which there is low labor demand, it is very difficult to employ all of those who request continued employment. In June 2011, the Ministry of Health, Labour and Welfare decided upon a policy of not permitting companies to set criteria for those eligible for continued employment, but if this kind of policy becomes institutionalized in such companies and industries, which are less motivated to retain elderly employees, a situation could arise in which employment opportunities are secured for a larger number of workers in continued employment, but the wages of individual employees are reduced in order to avoid increasing total labor costs. If importance is attached to expanding employment opportunities for elderly

people and ensuring that they have sufficient income to cover living expenses, greater consideration will need to be given in future to the necessity of policies to supplement wages in order to deal with this kind of situation, similar to the existing Continued Employment Benefit for Older Workers.

What also emerges from the analysis of companies not altering treatment (primarily wages) after reaching the mandatory retirement age is the fact that, at companies not altering treatment, a balance is achieved in some form between the jobs done by elderly people and the wages paid to them. The methods used to achieve this balance include deploying these employees in jobs requiring proficiency and skills, as well as in ways that increase the education and training effect for younger employees, something that can be seen from the content of the criteria set for determining eligibility for continued employment. In order to ensure such treatment based on the level of contribution, it is worth considering measures to enhance the employment environment for elderly people, such as

through offering support relating to the utilization of elderly people in education and training within companies, and promoting effective partnerships between companies and the government in relation to the evaluation of abilities within companies.

3. The Livelihood-making Effect of the Job Security Measures for Elderly People: In Relation to the Raised Age Eligible for Pension

This chapter examines the ways in which elderly people, primarily those in their early 60s, cover their living expenses, analyzing such matters as the necessity of earned income when the age eligible for pension is raised to 65, and the effect of the job security measures for elderly people (either raising the mandatory retirement age, continued employment (re-employment, extended employment), or abolishing the mandatory retirement age). The data was obtained from individual responses to the “Survey of the Employment Status of Elderly People” conducted by JILPT in August 2009 to analyze by

I-7 Pensions and Ways of Covering Living Expenses

	Those who cannot cover their living expenses without an employees' pension	Others	Overall	Job security measures for elderly people		Raising/abolition of the mandatory retirement age	
				Applied	Others	Applied	Was not applied
Component ratio (%)	15%	85%	100%	42%	58%	18%	82%
Net savings at age 65 (¥10,000)	84.8	1980.5	1694.3	2037.0	1451.1	2861.4	1442.7
Figure if received no employees' pension (¥10,000)	-667.8	1674.5	1321.0	1773.0	1000.2	2764.6	1009.7
Gap between income and living expenses (¥10,000, per month)	0.3	22.5	19.1	26.9	13.6	37.8	15.1
Figure if received no employees' pension (¥10,000, per month)	-12.2	17.4	12.9	22.5	6.1	36.2	7.9
Living expenses (¥10,000, per month)	20.2	19.0	19.2	20.8	18.0	23.2	18.3
Total income (¥10,000, per month)	20.6	41.5	38.3	47.7	31.6	61.0	33.4
Earned income (¥10,000, per month)	2.8	18.9	16.4	26.9	9.0	38.4	11.7
Employees' pension (¥10,000, per month)	12.5	5.1	6.2	4.4	7.5	1.6	7.2
Employees' pension (before reduction due to wage earning) (¥10,000, per month)	13.0	6.2	7.3	5.9	8.2	2.1	8.4
Other unearned income (¥10,000, per month)	2.6	6.8	6.2	5.2	6.9	6.0	6.2
Earned income of spouse (¥10,000, per month)	1.4	6.7	5.9	8.4	4.1	12.0	4.6
Unearned income of spouse (¥10,000, per month)	1.3	4.0	3.6	2.9	4.1	3.1	3.7
Employment rate (%)	32%	75%	68%	90%	53%	100%	61%
Proportion of part-time/arubaito (%)	46%	20%	22%	17%	27%	11%	25%
Percentage of those job security measures for elderly people are applied to (%)	27%	44%	42%	100%	0%	100%	29%
Percentage to whom raising/abolition of mandatory retirement age was applied (%)	3%	20%	18%	43%	0%	100%	0%
Percentage unable to realize their wish for continued employment (%)	20%	9%	11%	0%	19%	0%	13%

means of cross tabulation, regression analysis and measures of distribution.

Looking at the results of the cross tabulation analysis, in the case of around 15% of all elderly people, their income would be lower than their living expenses if they did not have the employees' pension, and they would be unable to cover those living expenses even if they used their net savings (I-7). This income shortfall is ¥120,000 (per month) on average, and even if elderly people tried to deal with it by breaking into their savings, the fact is that their net savings only amount to less than ¥1 million on average, which is nowhere near enough to cover their living expenses during the first five years of their 60s. Some people may argue that elderly people are rich in assets and that they should be able to cope with it by breaking into their savings even if they do not receive a pension in their early 60s, but there are considerable intra-generational disparities among elderly people, quite a few of whom are not affluent. It is thought that a reaction will be required for at least around these 15% of people once the age at which pension payments commence is finally raised to 65.

Looking at the main factors behind the income shortfall for these people, first of all, they have little earned income. The reasons for having little earned income are, firstly, the low employment rate, coupled with the impact of disparities in the implementation of job security measures for elderly people. As shown in I-7, their employment rate is 32%, which is considerably lower than the 75% among those who can cover their living expenses. Furthermore, even among those in employment, the proportion of part-time and *arubaito* workers is high, which is believed to be another cause of low level of earned income. The proportion of all employed persons accounted for by those in part-time jobs or *arubaito* is 46%, which is much higher than 20% for those who can cover their living expenses. The average monthly earned income of those in part-time jobs or *arubaito* is approximately ¥140,000, while those who are in other forms of employment earned roughly ¥270,000, the income for the former group being lower accordingly. This situation may also be attributed to disparities in the implementation of raising the age of

or abolishing the mandatory retirement. Looking at the results of regression analysis of the contributory factors of earned income, job security measures for elderly people and or raising the age of or abolishing the mandatory retirement have an increasing effect on the earned income of elderly people in their early 60s.

However, this is just the situation on average among people who would be unable to cover their living expenses without the employees' pension, and variations in income or pension do exist. Then income disparities and the degree of contribution of earned income and the employees' pension, etc. to the disparities were calculated based on the quasi-Gini coefficient and quasi-relative variance (quasi-squared coefficient of variation), which are indicators of distribution that measure disparities. Looking at the results of the analysis, pension payments that start at the age of 65 will have the effect of widening income gaps, but if job security measures for elderly people are popularized to increase the employment rate, it has quite a considerable gap-shrinking effect. Job security measures for elderly people are vital in order to curb the expansion of income gaps and to reduce the number of people with a shortfall in income to cover their living expenses. Furthermore, raising the age of or abolishing the mandatory retirement, if it became more prevalent, would also have an effect of reducing income disparities among working persons.

I-8 examines the ways of covering living expenses by age among elderly people in their early 60s. In each age group, income is higher than living expenses even if the employees' pension is excluded, but the younger they are, the higher incomes tend to be, and net savings also tend to be larger. Reflecting this, in the questionnaire survey, the proportion of those whose income would be smaller than their living expenses without the employees' pension and unable to cover those expenses even if they broke into their savings tends to be lower among younger respondents, at 12% among those aged 60, 11% among those aged 61, 13% among those aged 62, 18% among those aged 63, and 26% among those aged 64. This may be affected by the fact that earned income is higher among those who are younger, and their overall income is higher accordingly.

I-8 Ways of Covering Living Expenses by Age

	By age					Overall
	60	61	62	63	64	
Component ratio (%)	19%	25%	23%	17%	16%	100%
Net savings at age 65 (¥10,000)	2018.2	1908.2	1584.2	1314.9	1526.4	1694.3
Figure if received no employees' pension (¥10,000)	1872.1	1638.8	1260.5	747.6	851.8	1321.0
Difference between income and living expenses (¥10,000, per month)	22.3	19.9	19.9	16.9	15.5	19.1
Figure if received no employees' pension (¥10,000, per month)	19.9	15.4	14.5	7.4	4.3	12.9
Living expenses (¥10,000, per month)	19.4	21.0	17.4	18.9	18.9	19.2
Total income (¥10,000, per month)	41.7	40.9	37.2	35.8	34.4	38.3
Earned income (¥10,000, per month)	24.6	18.2	16.8	10.1	9.8	16.4
Employees' pension (¥10,000, per month)	2.4	4.5	5.4	9.5	11.2	6.2
Employees' pension (before reduction due to wage earning) (¥10,000, per month)	3.2	5.6	5.9	11.6	12.1	7.3
Other unearned income (¥10,000, per month)	4.6	7.0	5.8	6.8	6.8	6.2
Earned income of spouse (¥10,000, per month)	5.8	8.8	6.2	3.8	3.2	5.9
Unearned income of spouse (¥10,000, per month)	4.2	2.5	3.0	5.6	3.3	3.6
Employment rate (%)	76%	73%	69%	59%	60%	68%
Proportion of part-time/ <i>arubaito</i> (%)	13%	12%	29%	24%	38%	22%
Percentage of those job security measures for elderly people are applied to (%)	55%	47%	44%	30%	26%	42%
Percentage to whom raising/abolition of mandatory retirement age was applied (%)	35%	20%	18%	9%	2%	18%
Percentage unable to realize their wish for continued employment (%)	4%	8%	13%	18%	14%	11%

It goes without saying that the higher earned income among younger people can be attributed to their higher employment rate. The results of the analysis here in conjunction with the fact, emerged separately, that employees' pension has hardly any negative effect on motivation to work, will show that differences in the employment rate by age are affected by external factors such as employment environment, that cannot be influenced by individual choices, and indeed affected by implementation of job security measures for elderly people.

By way of conclusion of this chapter, it is presumed that once the age eligible for pension payments is raised to 65, elderly people whose income falls below living expenses and who cannot cover those expenses even if they break into their net savings will emerge to some degree. The situation of such elderly people is their net savings are so small that they cannot cover their living expenses during the five years until they reach the age of 65. A reaction, therefore will be required in the event that the age eligible for pension payments is raised to 65. The popularization of job security measures for

elderly people has the effect of reducing the number of elderly people with this kind of income shortfall by raising their employment rate, and hence their earned income. Furthermore, the effect would be even larger if raising the age of or abolishing the mandatory retirement became more prevalent among the job security measures for elderly people.

Reflecting compulsory raise of mandatory retirement age step-by-step, job security measures for elderly people are applied more to elderly people at younger age, but in addition to ensuring that all companies steadily take job security measures for elderly people up to the age of 65, it is necessary to promote that all elderly people who desire to can continue to work surely up to the age of 65. For this purpose, the examination of the eligibility of elderly people permitted under the current system for their continued employment should be abolished. Furthermore, the mandatory retirement age should be raised to 65 or above by the time the process completes of raising to 65 the age at which payments of the earnings-related component of the employees' pension commence.

II. Issues Concerning the Employment of Elderly People and Overseas Trends

4. Ways of Working in the Final Stage of One's Working Life and Elderly People's Attitudes to Employment

This chapter is slightly different from the other chapters, in that it focuses on the psychological aspects relating to workers approaching the mandatory retirement age who intend to continue working. The author analyzed the questions of how elderly people in the final stage of their working lives perceive newly-imposed changes in their conditions of employment, compared with what they were used to before reaching the mandatory retirement age, and how they evaluate their own working lives up to that point. This truly is a study that investigates the conditions for elderly people to achieve a smooth retirement from their working lives. A questionnaire was carried out among 380 people with experience of mandatory retirement (3 aged 50-59, 258 aged 60-65, and 119 aged 66-69), and two case study interviews were conducted. The following was understood from the analysis of the survey results.

Firstly, the question of how people perceive the working conditions at their new workplace after mandatory retirement was examined. It seems that, after mandatory retirement, most workers were forced to seek ways of working and approaches to work that involved different conditions from the jobs that they had held hitherto. As well as separation from posts and changes in employment type, post-retirement employment often involves a fall in wages. However, to put it in figures, the ratio of those whose overall working conditions are the same or better to those whose working conditions are worse is 56:44, so it is not necessarily the case that respondents felt that their conditions of employment had deteriorated. As well as the individual conditions of employment such as the form of employment, content of the job, level of authority, wages, and working hours, the working conditions referred to here include the overall conditions granted to the individual, that is to say, the conditions seen from a comprehensive perspective (hereinafter referred to as the "general conditions"). The general conditions

include such aspects as the ease of working and job satisfaction, but precisely what aspects are included is subjective and varies according to the individual.

Here, multiple linear regression analysis has been used to examine what factors affect the way in which the general conditions are perceived. To summarize the results overall, the situation of the individual in their home life does not seem to give rise to any particular differences in how changes in the general conditions are perceived, but occupation and work-related power relationships in the workplace have a significant relationship. Moreover, in regard to individual conditions of employment, apart from wages and working hours, all conditions were significant determining factors.

Next, the pre-retirement expectations of those who perceived their general conditions to have improved were examined, in regard to the environment and conditions that they expected of their post-retirement workplace. This is because it is thought that, if the conditions desired before reaching the mandatory retirement age (hereinafter referred to as the "desired conditions") are achieved, it becomes easier to approach one's job with positive feelings and the individual will perceive their general working conditions after reaching the mandatory retirement age in a better way; as such, it is an analysis designed to verify this hypothesis.

I-9 shows the results. The respondents were asked to choose up to two applicable statements from among the 15 statements listed. The results can be summarized as follows. Firstly, being able to acknowledge that one can do one's job based on one's own authority and responsibility – that is to say, being able to feel that one has been put in charge of one's job in the workplace to a considerable degree – has the effect of making people perceive their general conditions to have improved. It is comparatively easy for those in executive or managerial positions and those in specialist/technical posts to obtain such jobs, and the proportion of those who achieve their desired conditions is high. Moreover, if the kind of job that one is good at is set as a desired condition, there is a strong possibility that this desired condition will be achieved and that this will serve to improve the general conditions.

I-9 Desired Conditions and Conditions Achieved

(n = 258)

Conditions for doing one's job	Strongly desired		More strongly desired		Achieved	
	Number of people	%	Number of people	%	Number of people	%
Substantially the same status and post as previously	21	(8.1)	10	(3.9)	40	(15.5)
A workplace environment that enables one to keep up appearances, such as the position of one's desk or the provision of one's own office	9	(3.5)	1	(0.4)	31	(12.0)
Assignment or deployment that takes into account one's interpersonal relationships to date	19	(7.4)	8	(3.1)	53	(20.5)
An appropriate job title or name for one's status that enables one to keep up appearances	19	(7.4)	5	(1.9)	55	(21.3)
Securing income that is a certain proportion of one's income immediately before reaching the mandatory retirement age	40	(15.5)	53	(20.5)	56	(21.7)
A benefit package at the same level / with the same content as previously	32	(12.4)	4	(1.6)	75	(29.1)
Job type and content, such as a job in a field in which one is skilled	43	(16.7)	41	(15.9)	92	(35.7)
A job that one can undertake at a leisurely pace, which is not demanding or difficult	50	(19.4)	24	(9.3)	82	(31.8)
No overtime or work on holidays	22	(8.5)	8	(3.1)	70	(27.1)
Short working hours	20	(7.8)	21	(8.1)	59	(22.9)
Able to commute outside the rush hour	10	(3.9)	1	(0.4)	38	(14.7)
Wages or treatment based on a short-term performance appraisal	4	(1.6)	1	(0.4)	2	(0.8)
Having wage increases	4	(1.6)	0	(0.0)	7	(2.7)
Ongoing stable employment	56	(21.7)	41	(15.9)	81	(31.4)
Other	5	(1.9)	6	(2.3)	8	(3.1)

On the other hand, those who responded "substantially the same status and post as previously" tend to perceive their general conditions to have declined, perhaps because such conditions were difficult to achieve if they had been set as a desired condition. However, with regard to status in one's work after reaching the mandatory retirement age, being a senior manager or executive increased satisfaction with one's working life overall, such as feeling that the general conditions had improved.

Next, self-image (how one perceives oneself) when working in the new workplace after mandatory retirement was analyzed. This is because whether or not an elderly person is able to feel a sense of satisfaction or feel convinced about their own image when working in a new workplace after mandatory retirement provides an important clue in judging

whether or not they have been able to make a smooth transition to their new working life after mandatory retirement. Here, multiple linear regression analysis has been conducted in regard to the respective relationships between changes in the general conditions and individual working conditions, and what is the determining factor of self-image, looking at the situation by occupation (three occupations: clerical, specialist/technical, and executive/managerial) and by age at the time of mandatory retirement (divided into those aged 60 and above and those aged 59 and below).

As a result, it was discovered that the factors contributing to self-image when working after reaching the mandatory retirement age differ by occupation. On the other hand, no major differences were observed by age. However, broadly speaking,

the fact is that self-image when working after reaching the mandatory retirement age differs quite considerably according to differences in position in the workplace (whether or not one is in a managerial post), and the content and type of job, more than it does according to occupation or age. For example, the sense of satisfaction increases among general staff in clerical posts if it is easy for them to take leave, but among those in executive/managerial posts, it leads to a negative self-image of being at a disadvantage.

Finally, in the latter part of this chapter, the individual case studies have been examined. More specifically, this focuses on people who are working after mandatory retirement, looking at whether the conclusions analyzed above are applicable and what image the people concerned have of themselves at present. The key points are introduced below.

Firstly, this part of the study examined the case of a man who took mandatory retirement at the age of 60 from an SME (employing about 60 people) dealing with automotive components, and was then employed on an ongoing basis at the same company where he had worked before retirement. In this example, the man's desired conditions were coordinated with the company in advance and were achieved. Accordingly, the man was satisfied with the conditions amid which he was carrying out his work after reaching the mandatory retirement age. Moreover, with regard to his post-retirement self-image, the burden of responsibility in his work had become lighter, but this enabled him to concentrate more on his work and he had the sense that he could actually do it better by devising operational improvements. In addition, considering that he came to have time for his personal life thanks to the shorter working hours, he took the lower income for granted, and was enjoying his working life, finding his work interesting. One can say that this trend is broadly similar to the knowledge gained from the study referred to above.

The next case focused on a man who had worked in personnel for a large corporation in the retail sector for many years, but had suddenly been ordered to relocate to a special subsidiary company that had been established for the purposes of employing

people with disabilities. The man had expertise in the duties of which he was in charge at the subsidiary and he was subsequently headhunted by another company that valued his knowledge and experience. In this example, the man worked as an executive, both before and after reaching the mandatory retirement age, and he enjoyed the breadth of the discretion that he had in his job, which corresponded with his work ethos. In addition, he attached importance to the social contribution made by the job, which corresponded with his attitude to his occupation, and he has been continuing to pursue those conditions as his desired conditions, even after reaching the mandatory retirement age. With regard to his post-retirement self-image, the man felt that he was translating his own ethos into reality, and was satisfied that this was meaningful. His work requires his expert know-how in the employment management of people with disabilities, so it is a specialist/technical post in nature. He chose this job after reaching the mandatory retirement age and obtained conditions compatible with this, so overall he secured good conditions.

To summarize the foregoing section, if workers have a positive image of themselves and can feel a sense of satisfaction in their work when engaging in new jobs after mandatory retirement, they can achieve a comfortable finish to their working lives. This also leads to a positive evaluation of their working lives overall.

In terms of actual problems in relation to this, it cannot be denied that differences in careers before mandatory retirement affect the conditions within which people work thereafter. However, at the same time, as shown in the first of these case studies in particular, no matter what kind of occupation or form of employment one might have, conditions exist for each individual to make them satisfied with their situation at work after reaching the mandatory retirement age, and give them a positive self-image.

The employment of elderly people is likely to increase in importance as an issue for companies in future. In seeking to utilize the abilities of workers after mandatory retirement, it is essential for companies to pay attention to putting in place the conditions that will enable each individual worker to

feel positive about their work situation.

5. Are Elderly People Depriving Young People of Jobs? The Potentiality for “Paired Work”

This chapter examines the problem of competition between the employment of elderly people and that of young people, which is a prevailing research topic in European countries. Are elderly people and young people really competing with each other for jobs? The various facts and opinions regarding this in Japan are confused and a unified awareness has yet to be achieved in academic circles. While the “substitution effect”, in which the extension of the employment of elderly people leads to companies curbing the hiring of new staff, has been confirmed through many empirical studies, there are those of the opinion that, based on international comparisons, no trade-off exists between the extension of the employment of elderly people and the employment of young people. The Japanese government has conventionally adopted a policy of supporting the extension of the employment of elderly people, partly as a response to the raised public pension eligibility age. In addition, based on the revised Act on Stabilization of Employment of Elderly Persons, job security measures for elderly people began to be implemented from April 2006 and all companies were obliged to put in place measures, either by abolishing the mandatory retirement age system, or by extending the mandatory retirement age or extending employment. However, it remains

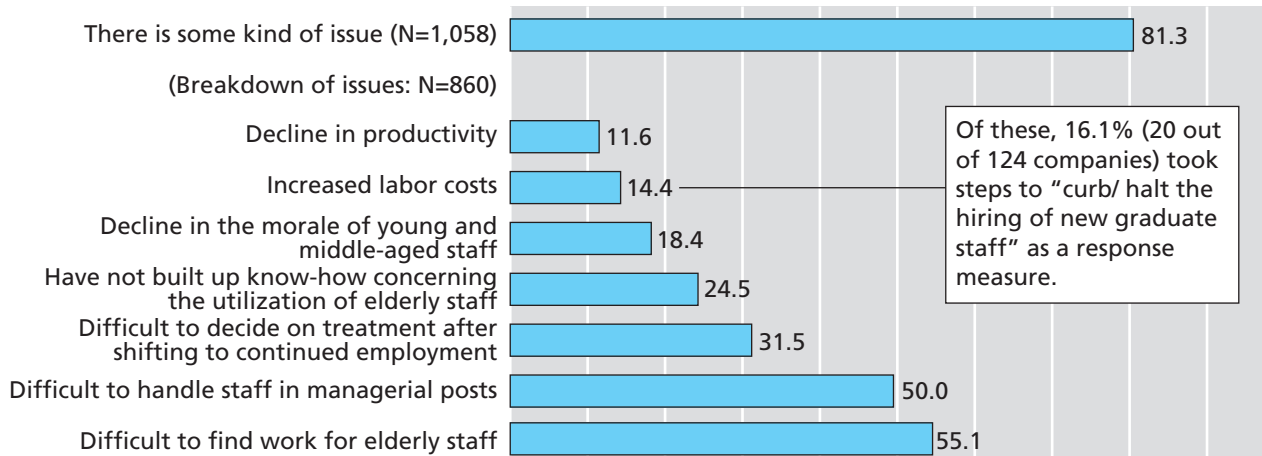
unclear what effect the introduction of such measures has had on employment opportunities for young people (particularly the hiring of new graduate staff).

Accordingly, focusing on differences between companies in the degree of introduction of employment extension measures (the proportion of those eligible to use the system, etc.) and the types of measures utilized (extension of the mandatory retirement age, re-employment, or an extended employment system), this chapter uses cross-sectional data at a single point in time, in order to try to precisely verify the relationship between the extension of the employment of elderly people and the hiring of new graduate staff. The past empirical studies that concluded that there was “competition (a substitution effect)” all used data from before April 2006. Therefore, in this chapter, firm-level data were used from a questionnaire conducted by JILPT among large corporations in October 2006, immediately after the law entered into force, entitled “Survey on the Actual Status of Continued Employment of Elderly People” (hereinafter referred to as the “JILPT Survey”).

In the JILPT Survey, of those who responded that the problem they experienced in offering some form of work to elderly people was “increased labor costs”, only 20 companies (1.9%) responded that the measure that they had taken to deal with this was to “curb/halt the hiring of new graduate staff”. As can be seen from I-10, rather than the hiring of new graduates being inhibited, many companies cited

I-10 Issues in Offering Some Form of Work to Elderly Staff (Multiple Answers)

(%)



more practical problems as issues relating to the continued employment of elderly people, such as finding work for elderly staff, the handling of managerial posts, and treatment after switching to continued employment.

Why do few personnel managers acknowledge a substitution effect between the employment of the elderly and the young? The first conceivable reason is the possibility that the personnel manager at a company does not have a clear answer regarding the causal relationship between the continued employment of elderly staff and the decision to “curb/halt the hiring of new graduate staff”. In order to properly distinguish whether or not the continued employment of elderly people leads to the hiring of new graduates being curbed, it is necessary to examine whether companies that engage in the continued employment of more elderly people are more likely to curb the hiring of new graduates, using statistical estimation techniques and taking the various factors affecting workforce demand at

companies and company attributes as constants. This paper uses the so-called “continued employment measures usage rate” as the indicator of continued employment; this indicates the proportion of staff members reaching the age of 60 who made use of continued employment measures (re-employment, extended employment or extension of the mandatory retirement age). Moreover, the FY2005 “new graduate hiring rate” (number of new hires/number of employees) is used as an indicator of the degree to which new graduates are being hired.

The results of the estimate in I-11 coincide with the “substitution effect” hypothesis in firm-level. Companies with a higher continued employment measures usage rate have a lower new graduate hiring rate, and where the former rises by 1 percentage point, the latter falls by 0.32 percentage points. Moreover, compared with companies where the mandatory retirement age is 60 (standard group), the new graduate hiring rate is 0.79 percentage points and 1.8 percentage points lower at companies where

I-11 Determinants of the Employment of New Graduates in Large Corporations

(n = 810)

	Y: New graduate hiring rate		
	Coefficient	Standard error	
Continued employment measures usage rate	-0.3229	0.0876	***
Mandatory retirement age: 61-64 years	-0.0079	0.0036	**
Mandatory retirement age: 65 years or above	-0.0180	0.0045	***
Continued employment 2: extended employment system	0.0013	0.0051	
Continued employment 3: raising the mandatory retirement age, etc.	-0.0052	0.0038	
Number of years of operation	0.0000	0.0000	
Industry type 2: manufacturing industry	0.0013	0.0028	
Industry type 3: transportation	-0.0086	0.0039	**
Industry type 4: wholesale & retail	0.0050	0.0033	
Industry type 5: service industry	-0.0014	0.0037	
Industry type 6: other	0.0036	0.0046	
Number of employees (1,000 people)	-0.0013	0.0004	***
Has a union	-0.0064	0.0023	***
Introduction of performance-related pay / payment by results	0.0004	0.0022	
Constant term	0.0323	0.0046	***
R Squared	0.0693		

Notes: 1) These are the results of estimates carried out using the OLS model. The standard errors are robust variance estimators.

2) Figures for the hiring of new graduates are the results of hiring in FY2005. On the other hand, figures for the number of employees are based on the situation at the time of the survey (October 2006).

3) *P-value < 0.1, **P-value < 0.05, ***P-value < 0.01

the mandatory retirement age is 61-64 and at companies at which it is 65 or above, respectively. The mean value for the new graduate hiring rate is 2.6%, so the results of the estimates suggest that, under the same conditions (company scale, industry type, etc.), the new graduate hiring rate at companies that have extended the mandatory retirement age will only reach 30%-70% of the average level.

In addition, the new graduate hiring rate is lower at larger companies and companies with unions. More specifically, for every increase of 1,000 in the number of employees, the new graduate hiring rate falls by 0.13 percentage points. Moreover, companies with unions have a new graduate hiring rate that is 0.64 percentage points lower than that of companies without unions. From these results, it can be said that the substitution effect between job security for elderly people and the hiring of new graduates, is relatively stronger within corporate giants and within corporates with unions.

To summarize the foregoing section, one can say that there is a distinct tendency to curb the hiring of new graduates among companies with higher continued employment measures usage rates, companies that have extended the mandatory retirement age, larger companies and companies with unions.

Hopes are being placed in “paired work”, in which an elderly person and a young person play complementary roles (such as “instructor” and “learner”), as a measure to curb this substitution effect, so that elderly people and young people do not have to compete for jobs. Unfortunately, the questionnaire used in this study did not include any information about the existence or otherwise of such “paired work” measures, so it has not been possible to engage in a rigorous discussion of these measures. As a second-best option, four types of “deemed paired work” measures (“deployment in a post with consideration for the physical strength of the elderly staff member”, “job development appropriate to the elderly staff member”, “operation of a specialist post system”, and “introduction of short-time work for elderly staff members”) were examined to see whether their introduction alleviated the tendency to curb the hiring of new graduates; the results of this

empirical analysis demonstrated that the four types of “deemed paired work” measures did not lead to the alleviation of the tendency to curb the hiring of new graduates.

In the future, as well as gaining an understanding of the content of “paired work” measures through case studies, it will be necessary to conduct a clearer analysis of the actual status and effects of such initiatives.

6. The Old Age Pension for Active Employees, and the Employment and Income Distribution of Elderly People

This chapter focuses on the current Old Age Pension for Active Employees system, analyzing elderly males in their early 60s for its employment-inhibiting effect and income redistribution effect. In addition, estimates were also made how the employment-inhibiting effect and income redistribution effect had changed as a result of the recent (FY2005) revision of the system, which abolished the previous system of reducing the pension uniformly by 20% upon entering employment. The estimates were made likely utilizing incomes plus the Continued Employment Benefit for Older Workers included. Currently, further easing of the Old Age Pension reduction is being considered by the Social Security Council of the Ministry of Health, Labour and Welfare; the impact of this on the employment-inhibiting effect and income redistribution effect has also been analyzed. The data were obtained from male individual responses to the “Survey on Continued Employment and Occupational Life After Age 60” carried out by JILPT in 2007. The Gini coefficient, coefficient of variation, Theil measure and Atkinson measure were used to determine the degree of inequality.

Firstly, let us look at the current mechanism of the Old Age Pension for Active Employees applied for those in their early 60s (I-12). With regard to the lines indicating the total of wages and pension, the line for the current system (thick solid line) is above the line for the former system, demonstrating that the revision of the Old Age Pension for Active Employees system (thin solid line) has alleviated the reduction in

I-12 Mechanism of the Old Age Pension for Active Employees for Those in Their Early 60s



Source: Figures for 1980-2010 from LABORSTA "Economically Active Population Estimates and Projections 1980-2020" (Data as of September 5, 2011)

pension.

Under the Old Age Pension for Active Employees system, the pension is reduced according to wages, which, therefore, has an inhibitory influence on the motivation to work, but the employment of elderly people and their wage income is not determined solely by individual choices such as motivation to work; rather, it is affected considerably by external factors that individuals cannot influence such as employment environment. The Old Age Pension for Active Employees system has the function of adjusting the pension amount in response to such external factors and of redistributing income among those who can work and those who cannot. With regard to this, let us look at the Gini coefficient, coefficient of variation, Theil measure and Atkinson measure relating to income distribution shown in I-13. Under both the current system and the one before the revision, the degree of inequality in each case was smaller than the initial one as a result of the Old Age Pension for Active Employees system. Moreover, with regard to the Theil measure,

decomposed by inequality among employed persons, inequality among non-employed persons, and inequality between the two, it was found out the inequality among employed persons makes less contribution to the total disparity shrinkage by the Old Age Pension for Active Employees system. The same result applies to cases with the Continued Employment Benefits for Older Workers included, too.

On the other hand, if one compares the current Old Age Pension for Active Employees system with the former one before the revision, the Gini coefficient, coefficient of variation, and Theil measure are smaller for the current one, while the Atkinson measure is larger, so it is difficult to judge which system is less unequal in terms of income redistribution. However, as shown in I-12, the reduction in pension under the current system has been eased compared to the former system, so a smaller change in income redistribution effect will be in play. In light of this point, one can say that the post-revision system has still maintained almost the

I-13 Changes in the Degree of Income Inequality Due to Revision of the System

	Gini coefficient	Coefficient of variation	Theil measure	Degree of contribution to Theil measure			Atkinson measure			
				Among employed persons	Among non-employed persons	Between the two	$\epsilon=0.5$	$\epsilon=1.5$	$\epsilon=2.5$	$\epsilon=3.5$
Initial income (wages and pension before reduction)	0.334	0.601	0.191	0.070	0.020	0.101	0.107	0.509	0.932	0.980
[Current old age pension for active employees system] After reduction due to the old age pension for active employees system	0.303	0.545	0.164	0.047	0.019	0.098	0.094	0.430	0.878	0.968
After addition of the continued employment benefit for older workers to the above	0.299	0.534	0.163	0.041	0.018	0.104	0.094	0.439	0.883	0.969
[Old age pension for active employees system before revision] After reduction due to the old age pension for active employees system	0.306	0.547	0.165	0.050	0.019	0.095	0.093	0.426	0.875	0.967
After addition of the continued employment benefit for older workers to the above	0.302	0.535	0.163	0.043	0.018	0.101	0.094	0.435	0.881	0.969

same scale of income redistribution effect, where post-reduced pension has become more synchronized in amount with initial income.

This is thought to be affected by the fact that the scale of the pension reduction has been made more synchronized with the initial income. Under the current Old Age Pension for Active Employees system, when the initial income exceeds a certain level, the pension is reduced by half in relation to the excess portion. Consequently, the reduction in pension is regarded as being progressive in relation to the initial income and because the pension reduction is synchronized with the initial income, having no adverse effect on the amount of post-reduced income, the degree of inequality in income distribution moderates. In its respect, under the pre-revision system, a uniform pension reduction of 20% was enforced on earned-income, so there were cases in which the scale of the pension reduction was not synchronized with the initial income. Consequently, when pensions account for a high (or low) share of the total income, the pension reduction is high (low) even though the initial income is low (high), so it is not necessarily the case that the pension reduction is progressive in relation to initial income, nor that the degree of inequality in income distribution is

reduced.

The basic mechanism through which the scale of the pension reduction was synchronized with the initial income was introduced in FY1995 and although it eased the pension reduction in such a way as to reduce the employment-inhibiting effect, it still had an income redistribution effect not very different from the pre-revision system. One can say that the mechanism for synchronizing the scale of the pension reduction with the initial income has been perfected, as a result of the recent revision of the system, which abolished the uniform 20% reduction in pension for those in employment.

Furthermore, the mechanism for synchronizing the scale of the pension reduction with the initial income in the current Old Age Pension for Active Employees system is desirable from the perspectives of both horizontal equity and the function of public pensions. From the perspective of horizontal equity, the scale of the pension reduction should be equal for those whose initial incomes are the same. Moreover, from the perspective of the function of public pensions in compensating for the earned income that one has ceased to be able to receive due to old age, the pension reduction should be the same for the two cases where the total of income and pension are the

same with different decomposition, considering the function of public pensions as compensation for reduction in earned-income. The current Old Age Pension for Active Employees system fulfills these criteria.

Finally, the prospects for future approaches to the Old Age Pension for Active Employees system have been examined. In relation to the Old Age Pension for Active Employees system, the Pension Committee of the Ministry of Health, Labour and Welfare's Social Security Council is considering easing the pension reduction by such means as raising the level at which the pension reduction begins to be applied or lowering the amount of pension reduction, with the objective of promoting the employment of elderly people. This paper, then, estimates the impact on the employment-inhibiting effect and the income redistribution effect in the event that this were to occur.

Looking at the results of the analysis, even in the case where the level at which the pension reduction begins to be applied is raised from the current ¥280,000 to ¥340,000, which is thought to be still within the middle income bracket, for the sake of reducing the employment-inhibiting effect, the Old Age Pension for Active Employers system is projected to maintain almost the same magnitude of income redistribution effect as the current one. Consequently, there is possibly scope for further easing of pension reductions, in order to reduce the employment-inhibiting effect. However, as one cannot say that the employment-inhibiting effect of the current Old Age Pension for Active Employees system is greater than its income redistribution effect, it would not be desirable to completely abolish reduction of the Old Age Pension for Active Employees once beyond the stage of easing the reduction up to the middle income bracket. Moreover, reduction in the pension reduction rate will not be desirable because the income redistribution effect in that case would be smaller than under the current Old Age Pension for Active Employees system, although the employment-inhibiting effect is reduced.

In addition, it has been decided that the age at which pension payments commence will be raised

from 60 to 65 over a transitional period, so the system of Old Age Pension for Active Employees for those in their early 60s, on which this chapter focuses, will disappear at that point in time. In the future, if employment for those in this age bracket is secured at all companies, by such means as the steady implementation of job security measures for elderly people up to the age of 65, it will eventually lessen the necessity to use the Old Age Pension for Active Employees system to redistribute income between those who can work and those who cannot. However, if it becomes possible to work until the age of 65 as a matter of course in the future, the issue of variations between those who can work after the age of 65 and those who cannot will become more important, so rather than the necessity of redistributing income vanishing, it will shift to an older age. Consequently, rather than abolishing the income redistribution function of the Old Age Pension for Active Employees system due to the raise in the age at which pension payments commence in future, it should be altered to target older people, by such means as making the basic pension for high income earners also subject to reduction after the age of 65. From the viewpoint of the role of public pensions, which is to compensate for the earned income that one has become unable to receive due to old age, the income redistribution function of the Old Age Pension for Active Employees needs to be maintained.

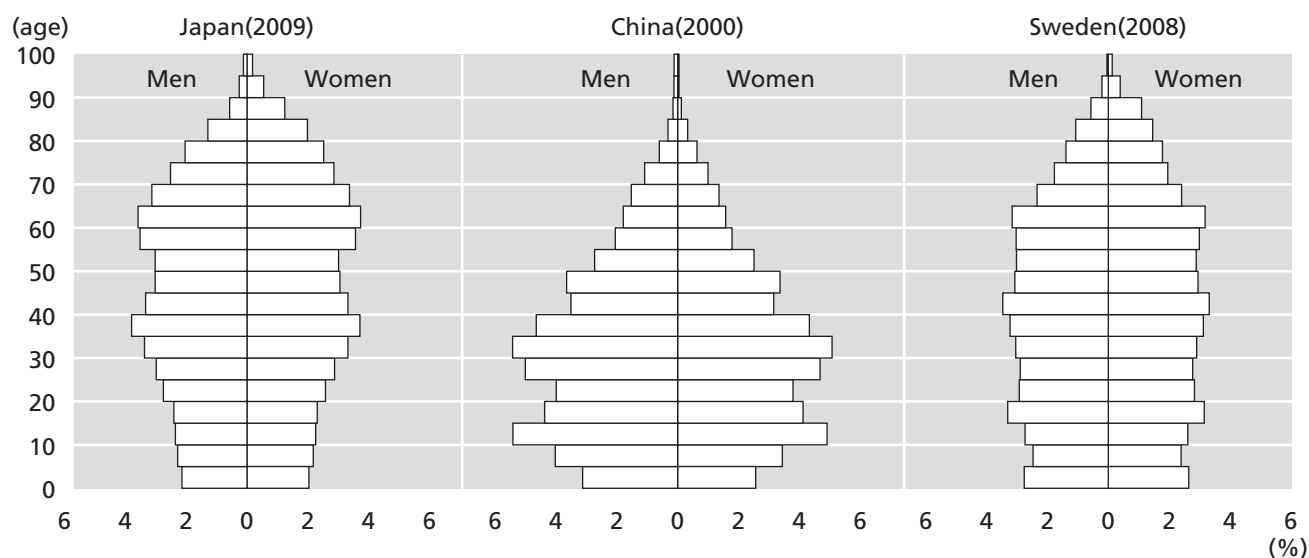
7. The Current Status of the Employment of Elderly People Overseas and the Government Measures

This chapter takes a look at the current situation of the employment of elderly people in other countries and their policies, drawing comparisons with Japan.

Firstly, the following points can be made regarding the current situation of their aging population.

- (i) The aging ratio (population aged 65 and above / total population) of Japan is growing rapidly, and is already the highest in the world (20.8% in 2006). The speed of aging is also extremely fast. In developed countries, the age bracket

I-14 International Comparison of Demographic Pyramids (Proportion by Age Group)



Source: Ministry of Internal Affairs and Communications website

accounting for the largest proportion of the population is shifting to the late 50s and above, but in Japan, there is pronounced bimodal distribution among the “baby boom generation” and their children, known as the “baby boom junior generation”. (I-14)

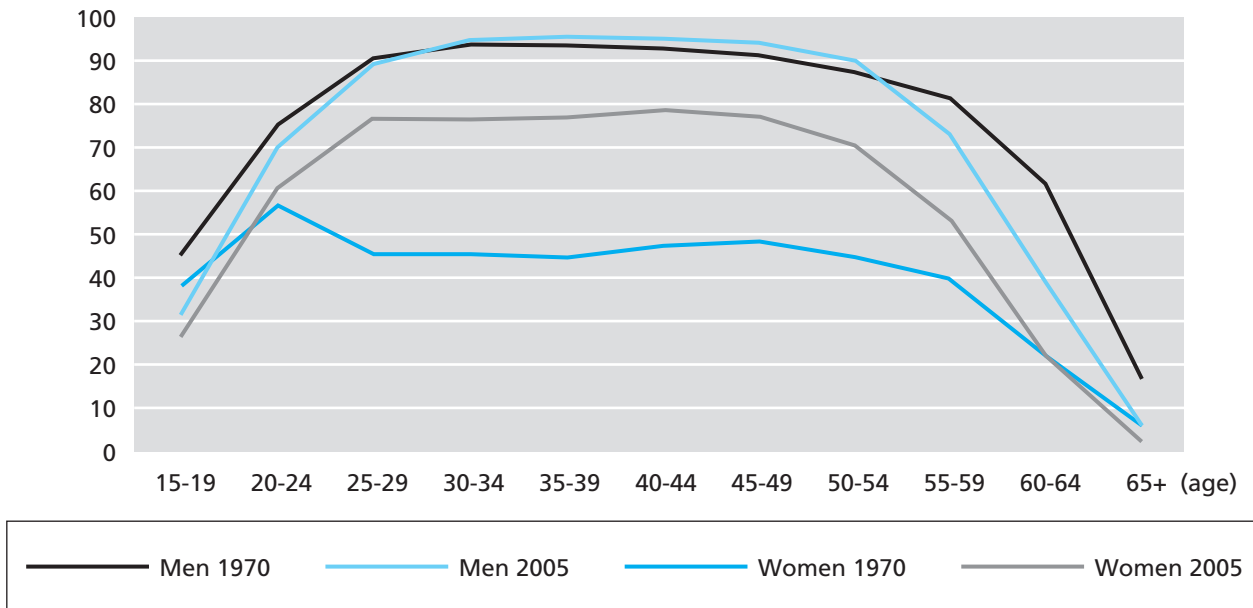
- (ii) The impact of aging is clearly shown by the support rate (population of working age ÷ population of elderly dependents). The comparison of the trends in the support rates between Japan and European countries suggests the necessity of elderly people in Japan, to be shifted on a much larger scale than in European countries, reflecting its faster aging, from being supported by society to supporting society (paying taxes and social insurance premiums). For example, suppose that the population of working age includes those aged 20 up to 70, then it follows that 2.83 workers are expected to support an each elderly person (aged 70 and above) in Japan in 2020. This level of 2.83 people is roughly equivalent to the average of 2.78 people for the same year in the countries of Western Europe, where the population of working age encompasses those aged 20 up to 65, which implies that the support rate of Japan would be equivalent to Western European

countries on the condition that they work five years longer in Japan.

Secondly, one can say the following about the employment situation of elderly people.

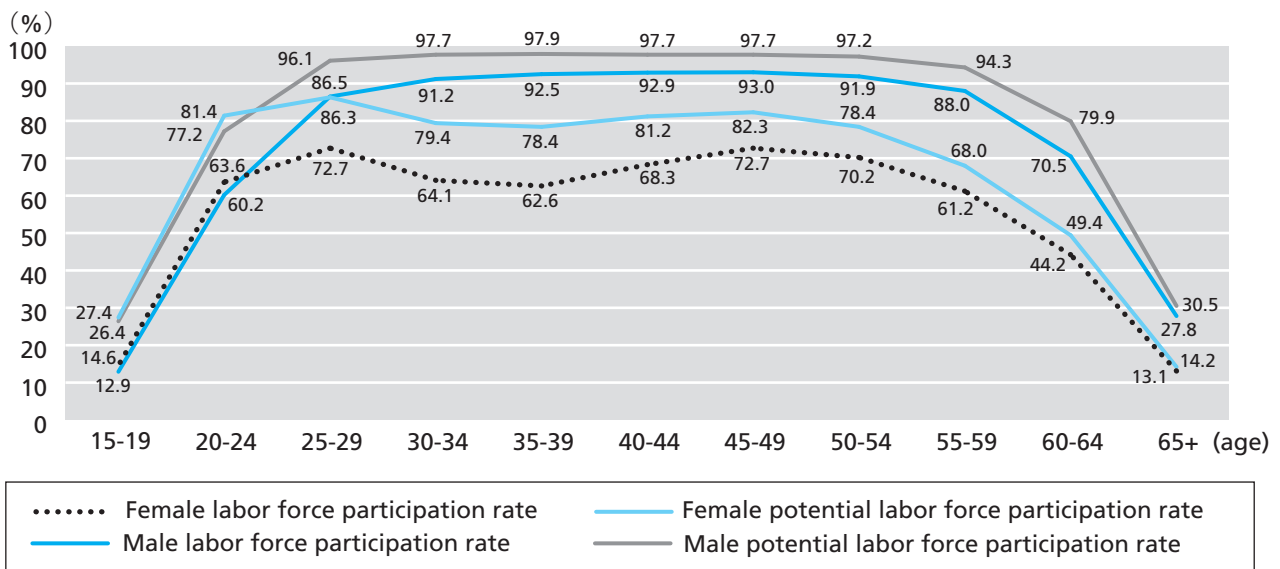
- (i) Looking at the employment rate by age, there are no major differences among countries between the age of 30 and around 50. In the case of those aged 55 and above, the employment rate falls considerably in a lot of Western countries, whereas it is high in Japan. However, if one focuses on the situation since the latter half of the 1990s, many countries demonstrate an increase in the rate. There is an upward trend among women in all countries (I-15, I-16).
- (ii) In many developed countries, the actual age of retirement from the labor market is lower than the age at which public pension payments commence, whereas in Japan, the actual age of retirement from the labor market is higher than the age at which public pension payments commence, among both men and women.
- (iii) In many countries, cross-sectional data on wages by age depict an inverted U-shaped curve in which wage levels among the middle-aged are high, primarily among men. Countries such as Japan and the UK are typical examples of this (I-17).

I-15 Labor Force Participation Rate by Gender in the 15 EU Countries (1970, 2005, %)



Source: EU "Employment in Europe 2007"

I-16 Labor Force Participation Rate by Gender in Japan



Source: Statistics Bureau, Ministry of Internal Affairs and Communications, *Labour Force Survey* (2010), *Labour Force Survey Detailed Tabulation* (2010)

Note: Potential labor force participation rate= (total labor force+ completely unemployed+ non-labor force who wish to be in employment)/ population aged 15 and above

Thirdly, with regard to public pensions, measures are being formulated in many countries, aiming at

improving the balance of pension revenue and expenditure in order to advance the sustainability of

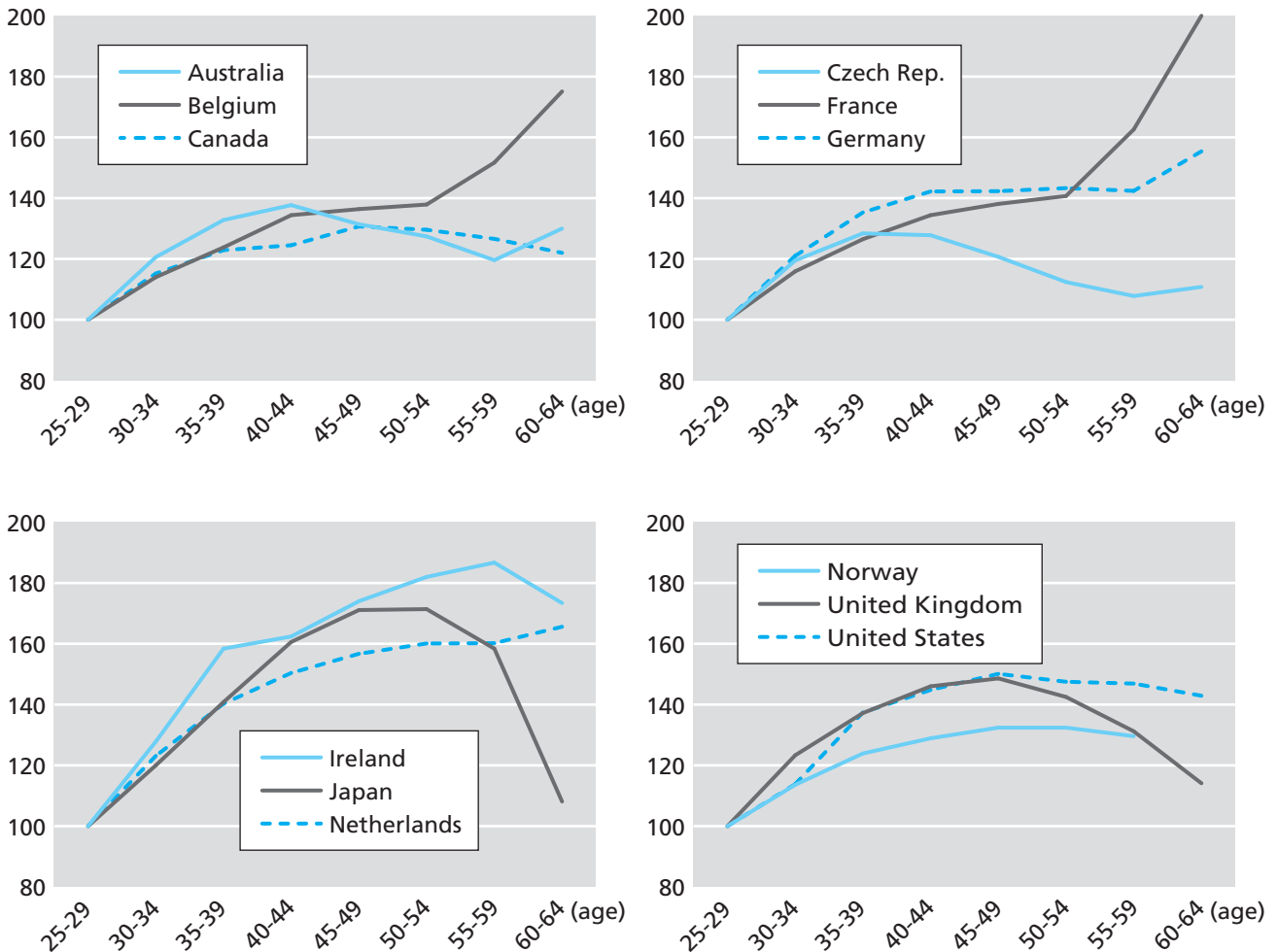
the pension system; in particular, in recent years, an increasing number of countries are implementing or considering an extension of premium payment period by such means as raising the age at which pension payments commence.

Fourthly, measures aiming at the employment of elderly people can be broadly classified into (i) measures limited for elderly people; (ii) measures relating to elderly people within somewhat broader policies, targeting such people as those experiencing difficulty in finding a job; and (iii) measures aiming at rectifying age discrimination (barriers). In recent years, initiatives prohibiting age discrimination have

become a universal trend across developed countries, not only in recruitment and hiring but also in all aspects of employment (although, other than in the so-called Anglo-Saxon countries, the initiative for retirement is limited only to revision of the age at which pension payments commence).

Moreover, all of the European countries are tackling issues relating to the economy, employment, health, pensions, education and housing in a comprehensive, strategic manner, and personnel management and labor relations practitioners in Europe are beginning to attach importance to “work (adaptation) ability”, which is built up on the basis of the balance between

I-17 Age and Wage Profiles (25-29 years = 100)



Source: OECD, “Pensions at a Glance 2011”

Notes: 1) The source is D’Addio et al (2010) “Population Ageing and Labour Market”, Oxford Review of Economic Policy” (based on the OECD income database)

2) Data are for full-time workers for 2005 to 2008, depending on the country.

the qualities of individuals (their health throughout their lifetime, as well as their specialist skills and values) and the demands of the job. In addition, it is difficult for elderly people to acquire new skills, so there is a tendency for human investment in elderly people to diminish, but in Switzerland and the Nordic countries, there is a high rate of vocational training attendance among elderly people and cross-sectional international studies have shown that the vocational training attendance rate among elderly people and the employment rate have a positively significant correlation.

With regard to responses to aging population in these foreign countries, there are many examples that could serve as a point of reference for Japan, such as (i) comprehensive, strategic initiatives to tackle issues relating to such matters as economy, employment, health, pensions, education and housing; (ii) the introduction of mechanisms within the pension system to promote the employment of elderly people; and (iii) initiatives prohibiting age discrimination in all aspects of employment, apart from regulations concerning retirement, synchronized with the age at which pension payments commence.

Final Chapter In Lieu of a Conclusion

The final chapter brings the volume to a conclusion by discussing future approaches to the issue of the employment of elderly people from a fairly broad perspective, in light of the results of analysis and policy implications outlined in the foregoing seven chapters.

In the first half of the chapter, the issues affecting the economic society of Japan are summarized, as it is thought most important to emphasize consistency with the nation's socioeconomic environment in considering issues concerned and approaches to policies concerning the employment of elderly people in the future. More specifically, reference was made to the following four aspects: firstly, in relation to the macroeconomic environment, the Japanese economy has been experiencing stagnant growth and investment in the long term, accompanied by ongoing hollowing-out of industry and employment; in addition, there has

been a prolonged decline in wages since the latter half of the 1990s. Secondly, it was stated that, with the aging of the population and the tax and social security expenditure burden expected to increase further in due course, it is important to ensure that elderly people start to bear part of the growing burden and that the promotion of the employment of elderly people is a form of system maintenance consistent with this policy perspective. Thirdly, it was asserted that, under the corporate management environment becoming increasingly harsh in the future, it is vital to properly position the employment of elderly people alongside personnel management, and education and training that values the expertise of workers, and also cohesive organizational management, in order to promote management innovation and cohesive organizational capability. Fourthly, in relation to the so-called 2007 problem, it was argued that the employment of elderly people should be promoted from the perspective of encouraging the transfer of skills.

On this basis, the latter part of the chapter discusses approaches to the employment of elderly people; firstly, it asserted that elderly people in Japan are healthy and active, so a system should be developed that allows those elderly people who wish to work to do so as long as they desire. Secondly, it pointed out the importance of properly positioning the employment of elderly people in organizational management and personnel management that emphasizes the cultivation of expertise, in order to enable elderly people to become one force supporting corporate management, amid the globalization of the economy. However, at the same time, given that it is thought important for both companies and elderly workers that it not be a "one size fits all" system, the question is raised of whether, for example, the introduction of specialist posts available for part-time workers could be considered.

With regard to this latter point, in terms of ensuring that improvements do not result in a "one size fits all" system, it was referred to as important to develop diverse mechanisms when creating systems for the employment of regular employees aged 60 and over. Flexible way of working, such as the aforementioned part-time specialist posts, is one concrete example of this, but the core issue is, as one

might expect, the system of mandatory retirement at the age of 65. Stating that it is important to devise a mechanism that will enable elderly people with diverse backgrounds to work at a company until the age of 65 if they so desire, this chapter referred to the issue of revising the mandatory retirement from executive posts (which is to decide on age structure for executives and those in managerial posts), and of designing wage structure based on broad classification of different occupation groups, while paying attention to total labor costs, both of which

will be the primary issues of devising the mechanism concerned.

Finally, in light of the long-term stagnant wages in Japan, as described above, the chapter concludes with an indicative proposal regarding the current Continued Employment Benefit for Older Workers system, recommending a shift away from the current mechanism of compensating individual workers, in a manner, for reduced wages to assisting companies partially with labor costs which may be burgeoned by the employment of elderly people.