

## 1 The Subject of Japan's Social Security System

### Dwindling Birthrates and Aging Population

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

### Social Security Cost

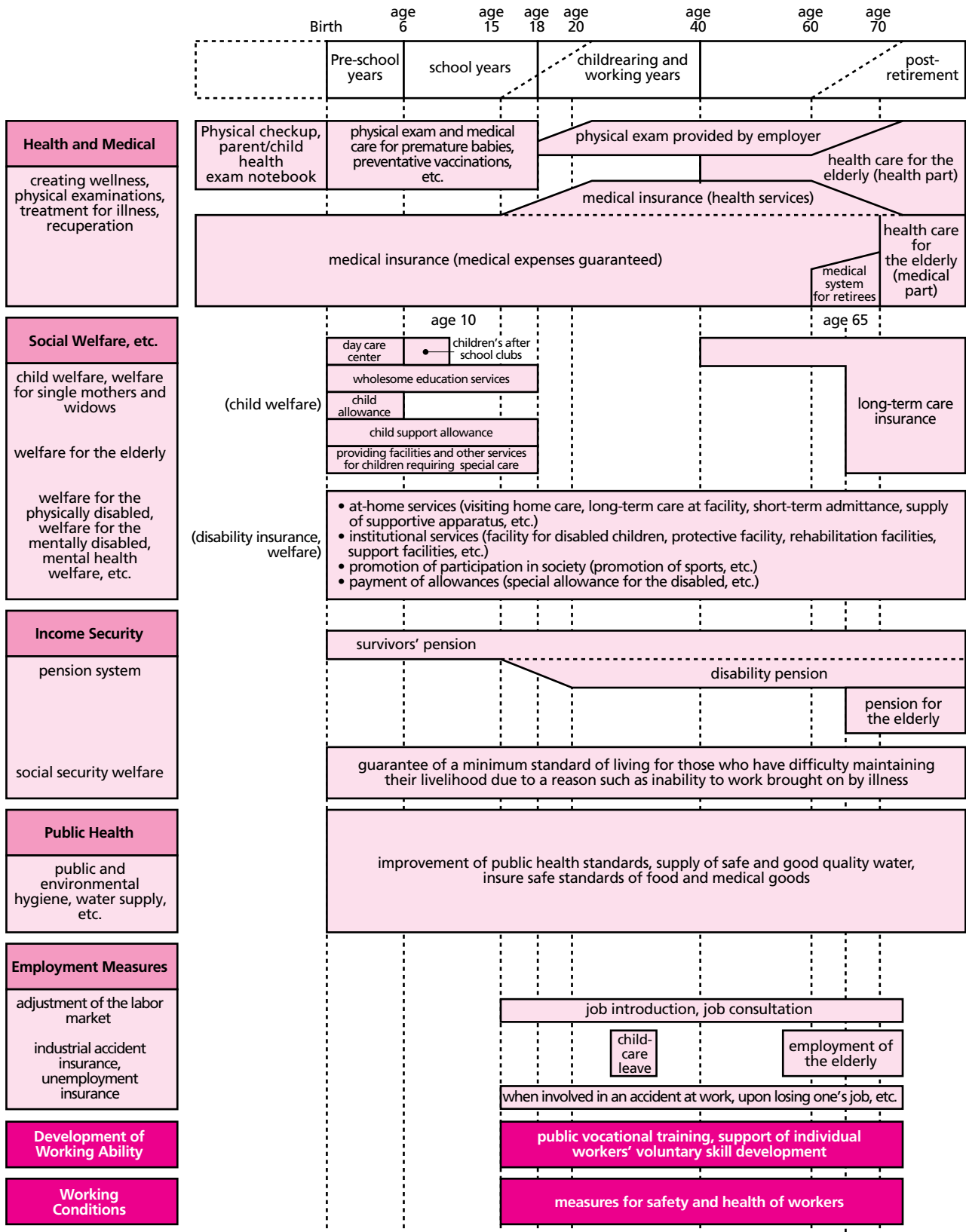
In order to make an international comparison on the trend of social security, the Organisation for Economic Co-operation and Development (OECD) is disclosing information on indices of social expenditure that includes pension funds, medical care and welfare for the poor, child allowance that gets transferred, social security benefits from expenditures on welfare services and expenditures such as expenses for facility development that do not get transferred directly to individuals (OECD Social Expenditure Database 2001). Based on this, international compari-

son of national income becomes possible, and looking at the percentage of Japan's national income occupied by social expenditure in 1998, since the portion of elderly persons in the total population increased (see Figure VI-3), and correspondingly the expenditures on pension benefits and medical benefits increased (see Figure VI-4), it is low when compared with that in European countries and also somewhat lower than in the U.S. (see Table VI-2). In contrast, the percentage of national income occupied by social security costs is low when compared with that in Germany and Sweden, but about the same as in the U.S. (see Table VI-2). However, when taking a look at the potential national burden ratio, which considers the tax burden in order to return the government deficit in the future, Japan has a higher standard than the U.S. The total fertility rate was 2.13 in 1970—close to the rate for maintaining population—but by 2001 it had fallen off to 1.31. Consequently, according to the 2000 census, the portion of elderly persons (age 65 or older), the portion of young population and the portion of working age in Japan's total population (128.15 million) were 17.4%, 14.6% and 68.1% respectively. However, the percentage of the elderly in the total population is forecast to increase into the future—reaching the 25% mark in 2014—so that one out of every four persons in Japan will be aged 65 or older (*January 2002 Future Population Projection*, National Institute of Population and Social Security Research) (see Figure VI-3).

### The Relationship Between Social Security Benefits and Cost Burden

As Figure VI-4 shows, since the aging of Japan brings about increased social security outlays, the

### VI-1 The Social Security System by Life Stage



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

decreasing percentage of working population implies that the per-person social security cost burden for the working generation will continue to rise, assuming per-person benefit costs for the retired generation are constant. Furthermore, due to increase in income disparity in the 1990s (See Gini index of initial income in Table VI-5), the need to increase income redistribution effects (see Redistribution Effects by Social Security in Table VI-5) through social security in response to this has been acknowledged in recent years. Therefore, to

avoid this kind of inter-generational inequity in the relationship between social security benefits and costs and to correct income disparity, “An Outline of Principles for the Aging Society” (Cabinet Office) created in December 2001 provided guidelines for the future of the social security system to plan for balance between benefits and costs that consider inter-generational equity, and to request a fair cost burden from those who have the ability to pay social security costs, corresponding to their ability to pay.

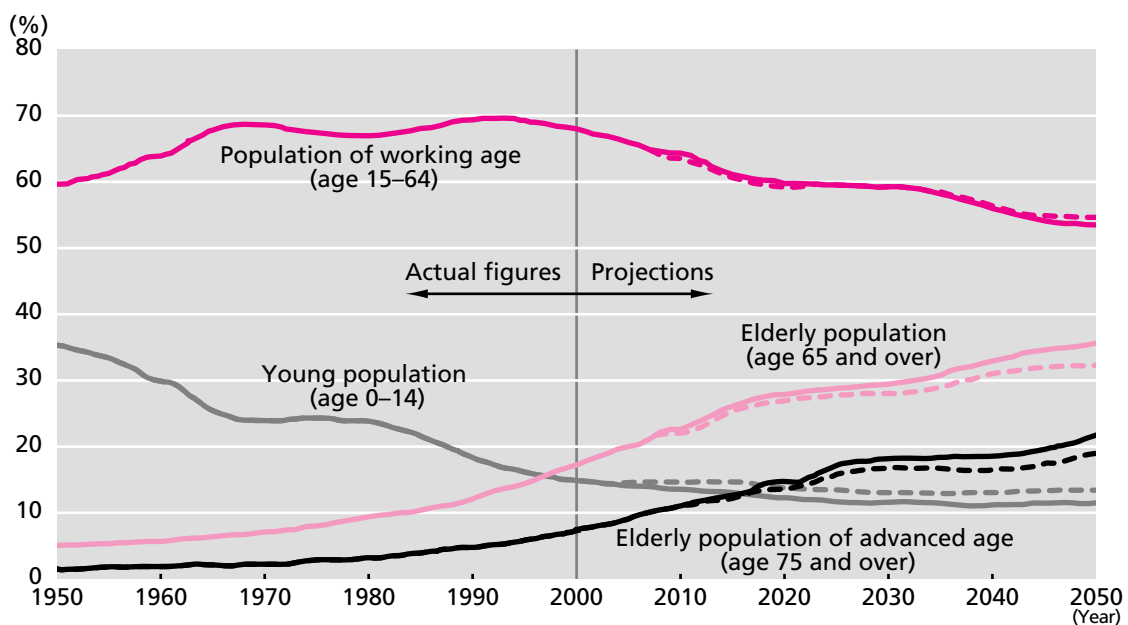
## VI-2 Percentage of National Income Occupied by Social Security Benefits and Social Security Costs

(%)

	Japan (FY 1998)	U.S. (1998)	U.K. (1998)	Germany (1998)	France (1998)	Sweden (1998)
Ratio of Social Expenditure (by the OECD Standards) to National Income	15.9	20.9	17.2	27.7	25.5	31.7
	Japan (FY 2003)	U.S. (1997)	U.K. (2000)	Germany (2000)	France (2000)	Sweden (2000)
Ratio of Social security cost to national income	15.2	9.8	9.8	25.3	25	22.1
(for reference) Tax burden ratio	20.9	26.2	41.4	31.2	39.8	54.4
(for reference) National burden ratio	36.1	36	51.2	56.6	64.8	76.5
(for reference) Potential national burden ratio	47.1	37.1	51.2	56.5	66.6	76.5

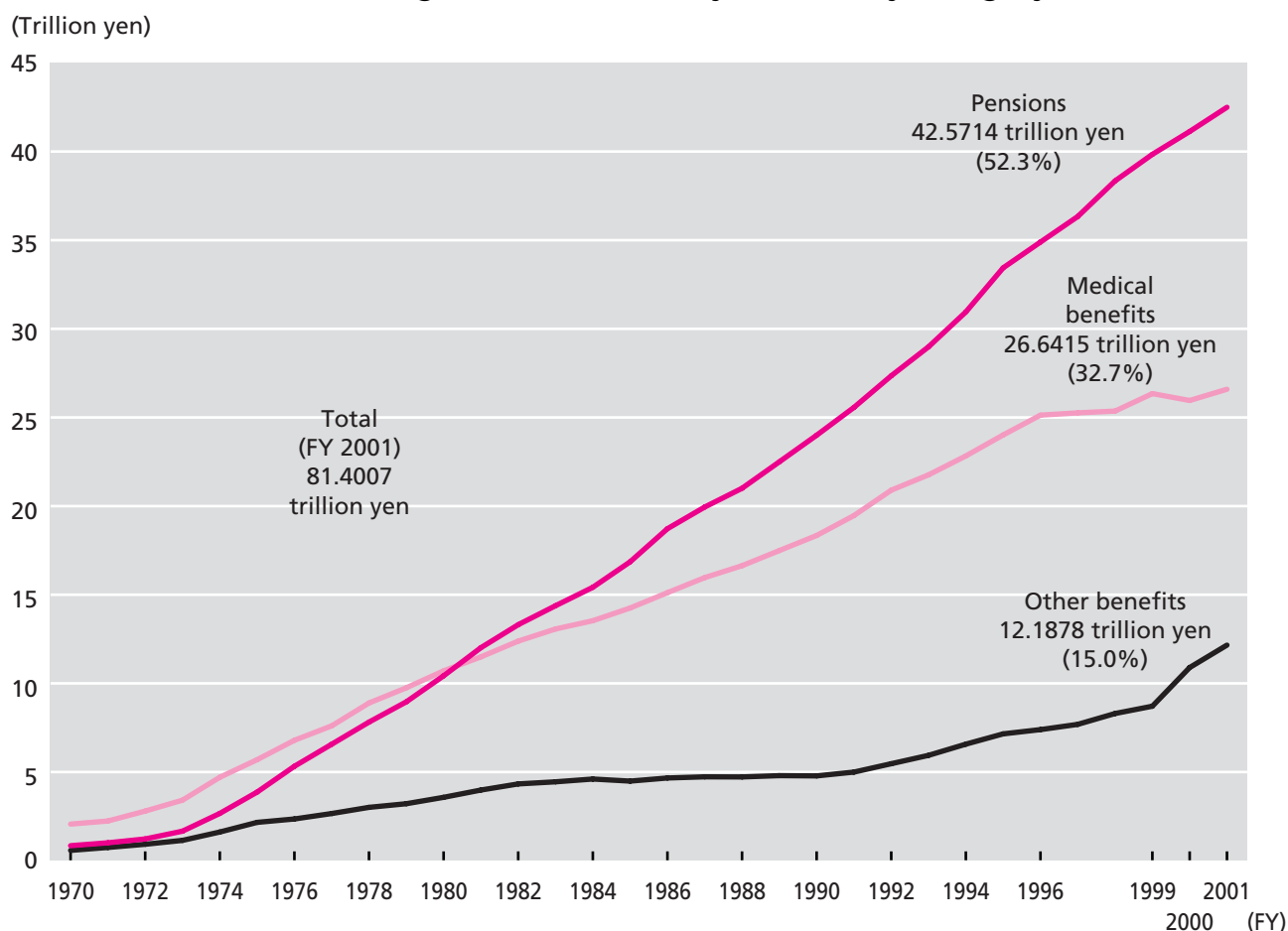
Sources: (1) *Cost of Social Security in Japan: FY2001*, Reference material (National Institute of Population and Social Security Research)  
 (2) 3<sup>rd</sup> Meeting, Working Party on Pension, Social Security Council, References/Reference Material 2-2

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



Sources: *Population Projections for Japan (Jan. 2002 Estimates)*, National Institute of Population and Social Security Research  
 Notes: Dotted line is the previous average

### VI-4 Changes in Social Security Benefits by Category



Sources: 2001 Social Security Benefit Costs, National Institute of Population and Social Security Research

### VI-5 Current Status of Income Disparity and Redistribution Effects by Social Security (Gini index)

	Initial income	Redistributed income		Income redistribution by tax (initial income – tax)		Income redistribution by social security (initial income + medical cost + social security benefits – social insurance premium)	
	Gini index (A)	Gini index (B)	Improvement rate $\left(\frac{A-B}{A}\right)$	Gini index (C)	Improvement rate $\left(\frac{A-C}{A}\right)$	Gini index (D)	Improvement rate $\left(\frac{A-D}{A}\right)$
			%		%		%
1987	0.4049	0.3382	16.5	0.3879	4.2	0.3564	12.0
1990	0.4334	0.3643	15.9	0.4207	2.9	0.3791	12.5
1993	0.4394	0.3645	17.0	0.4255	3.2	0.3812	13.2
1997	0.4412	0.3606	18.3	0.4338	1.7	0.3721	15.7
1999	0.4720	0.3814	19.2	0.4660	1.3	0.3912	17.1

Sources: Annual Report on Health and Welfare 2002, Ministry of Health, Labour and Welfare

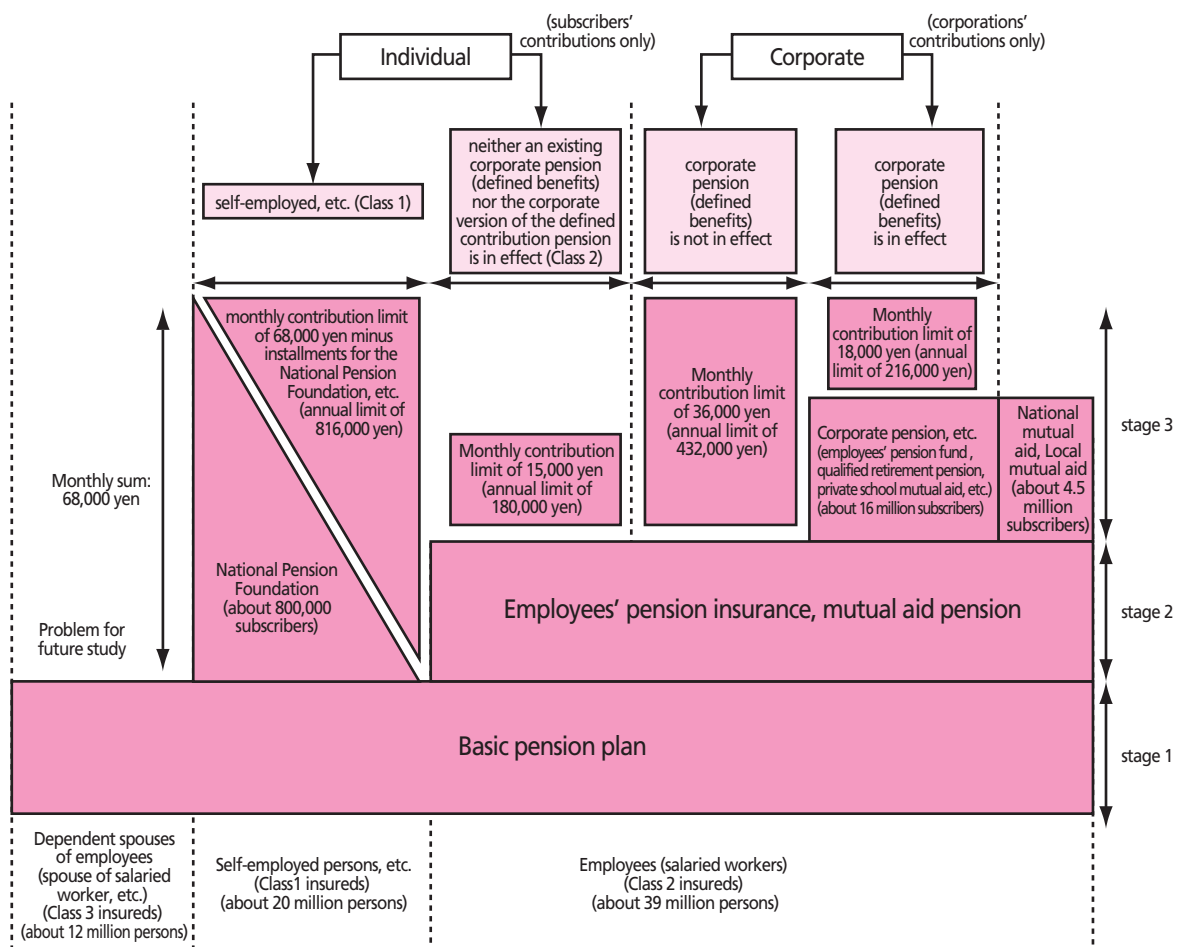
## 2 Pension System

### The Characteristic of Japan's Pension System

All Japanese citizens are insured in the medical insurance and pension systems, which are run under the principle (insurance for all, pensions for all) that medical services or pension benefits be receivable upon becoming ill or reaching old age. Within Japan's pension system (see Figure VI-6) is a basic pension; all citizens (persons aged 20 to 59) become members of this basic pension plan and receive pension benefits upon reaching the age for payment of benefits to begin (age 60 at present, age 65 for men

from 2013, and age 65 for women from 2018). For salaried workers and government employees, respectively, there are employees' pensions and mutual aid pensions to provide pension monies proportionate to salaries in addition to the basic pension. While basic pension premiums for the self-employed are fixed amounts (monthly rate of 13,300 yen in 2002), the pension premium rate for salaried workers and government employees are covered equally by the labor and management, and is 17.35% of their salaries, or 1% of their bonuses (in 2002).

VI-6 The Pension System



Sources: Annual Report on Health, Labour and Welfare, 2002, Ministry of Health, Labour and Welfare

In terms of corporate pension plans to supplement these public pensions, up to now there were the Employees' Pension Fund and tax-qualified pensions for salaried workers. Added to these, to more fully protect persons with the right to receive corporate pension benefits and to substantiate portability of reserve funds, a defined payment corporate pension and defined contribution corporate pension were introduced in 2001. Also, for the self-employed, there is the National Pension Foundation—equivalent to the corporate pension system—to supplement the basic pension. Further, there is a survivors' pension for the bereaved families of pension plan subscribers or of pension beneficiaries; and disability pensions may be provided under specific conditions when subscribers have disabilities. Developments in the numbers of pension beneficiaries and benefit amounts are as in Table VI-7. The average pension benefit amount of employees' pension for both old-age pension and basic pension per person for FY2001 was 163,000 yen and 66,000 yen respectively.

The characteristic of Japan's pension system relating to the labor market is the point that it cooperates with unemployment insurance. That is, for older workers between ages 60 and 64, elderly employment continuation benefits and elderly re-employment benefits are provided when wages fall below 85% of his

or her wage around retirement at 60. Further, to support female workers' combining of childrearing and work activities, payment of employees' pension insurance premium is excused for both the worker and employer during the period of child care leave (see Chapter V-8 for Assistance Measures to Balance Work and Family).

### Pension Reform Plan of 2004

This type of Japanese pension system is amended every five years upon recalculation of pension financing. Two reform plans have been submitted on pension reform for 2004. One is to increase the premium burden in the future in exchange for maintaining the portion of pension benefits to income of the current generation at a certain level as in the current system. The other is, as introduced in "An Outline of Principles for the Aging Society," to make adjustments to the benefit standards in correlation to the economic situation and progress of the aging society in exchange with fixing a certain level of premium burden (20% in the case of employees' pension) in the future to obtain equality between generations. The Working Party on Pension, Social Security Council noted that while drawing upon the pension reform of Sweden in 2001, making consideration with the latter plan at its core is desirable.

## VI-7 Annual Changes in Numbers of Public Pension Plan Subscribers and Public Pension Recipients

	Number of Public Pension Plan Subscribers					Number of Public Pension Recipients				
	Total	Class 1 Insureds	Class 2 Insureds		Class 3 Insureds	Total	National Pension	Employees' Pension	Mutual-aid Association	Welfare Pension
		(self-employed, etc.)	Employees' Pension (salaried workers)	Mutual aid Pension (government workers)	(dependent spouses of salaried workers)					
1987	64,105	19,292	28,216	5,299	11,299	22,523	10,077	8,910	2,048	1,488
1990	66,313	17,579	31,493	5,285	11,956	25,001	11,001	10,643	2,390	964
1995	69,952	19,104	33,275	5,327	12,201	32,363	14,751	14,254	2,958	400
1996	70,195	19,356	33,462	5,362	12,015	33,940	15,611	14,956	3,044	329
1997	70,344	19,589	33,468	5,339	11,949	35,765	16,585	15,778	3,134	268
1998	70,502	20,426	32,957	5,302	11,818	37,404	17,469	16,503	3,218	215
1999	70,616	21,175	32,481	5,273	11,686	39,062	18,362	17,233	3,296	171
2000	70,491	21,537	32,192	5,031	11,531	40,906	19,304	18,074	3,392	137

Sources: *Annual Report on Health, Labour and Welfare, 2002*, Ministry of Health, Labour and Welfare

### Features of the Medical Insurance System

Within Japan's medical insurance there is association-managed health insurance for employees (and their families) of workplaces of five or more workers, government-managed health insurance for employees (and their families) of workplaces with fewer than five workers, national health insurance for the self-employed, etc., and medical insurance provided by mutual aid associations for national government employees and local government employees (see Figure VI-8, upper part). Subscribers in medical insurance programs pay the insurance premium themselves, but the subscribers themselves and their families may receive medical services at the medical institution of their choice by paying only a portion of the medical expense. Moreover, the health insurance association, government-managed health insurance association, and national health insurance have an elderly insurance system for elderly aged 65 or over requiring long-term care and for all elderly aged 70 or over. In this system (see Figure VI-8, lower part), the medical cost burden borne by the elderly is mitigated by contributions from the respective insurance associations, according to the number of elderly subscribers to each system; the fewer the elderly subscribers, the greater the contributions.

As Figure VI-4 shows, due to the continuing rise in medical expenses, medical insurance finances have gone into deficit status, and lively discussion on health insurance reform is taking place with stress on elements such as the strengthening of the function of insurers, regulation of risk structures, and raising the portion of expenses paid by recipients of medical care.

### Medical Insurance and Long-Term Care Insurance

Under such a condition, the elderly insurance system since October 2002 has followed the guidelines of "An Outline of Principles for the Aging Society," and the portion of medical costs borne by a typical elderly is 10%, but the portion for which elderly with high income is held responsible has been raised to 20%. Furthermore, in April 2003, the portion for which the subscribers of health insurance targeting workers are held responsible has been raised from 20% of medical benefits to 30%, the same as national health insurance.

### Long-Term Care Insurance System

Long-term care insurance has been in operation since April 2000 to provide public assistance to lighten the care burden for long-term care recipients' families. This assistance makes it easier for bedridden elderly and other elderly requiring long-term care to receive this care at home, and for others to receive long-term care at a facility outside of home. Under the long-term care insurance system, citizens aged 40 and older pay long-term care insurance premium. In return, persons 65 and older who need long-term care may receive specific long-term care services, such as the dispatch of a home helper, according to the assessment of committees established locally to approve the necessity of long-term care. While the insurance premiums and standards for approval of long-term care necessity are determined uniformly by the national government, the above-mentioned local committees do the approving based on these standards.

For the provision of long-term care services as



## VI-8 The Medical Insurance System

Plan			Insurer (As of 31 March 2001)	Subscribers (As of 31 March 2001) and subscriber's dependents (Unit: 1,000 persons)	Insurance Benefits			Financial resources																		
					Medical Benefits		Cash Benefits	Insurance premiums (As of 31 March 2000)	Government subsidies (2000 budget)																	
					Payment in part (Age 3-69)	High-Cost Medical Care Benefits																				
Health insurance	Ordinary employees	Government-managed	National government	36,758 [ 19,451 17,307 ]	<ul style="list-style-type: none"> <li>○Subscriber— 20 percent</li> <li>Family— inpatient 20 percent outpatient 30 percent</li> <li>○Outpatient medicine (children under 6 exempt)               <ul style="list-style-type: none"> <li>• internal use medicine, per prescription:                   <ul style="list-style-type: none"> <li>Daily portion                       <ul style="list-style-type: none"> <li>1 type 0 yen</li> <li>2-3 types 30 yen</li> <li>4-5 types 60 yen</li> <li>6 or more types 100 yen</li> </ul> </li> <li>• external use medicine, per prescription:                       <ul style="list-style-type: none"> <li>1 type 50 yen</li> <li>2 types 100 yen</li> <li>3 or more types 150 yen</li> </ul> </li> <li>• one-shot medicine, per administration:                       <ul style="list-style-type: none"> <li>per type 10 yen</li> </ul> </li> </ul> </li> <li>○Children below 3 20%</li> </ul> </li></ul>	<ul style="list-style-type: none"> <li>• Sickness benefits</li> <li>• Lump-sum payment for childbirth, child care etc.</li> </ul>	8.5% Special insurance premiums 1%	13.0% of benefits (16.4% of benefits for the elderly)																		
		Association-managed	Health insurance associations 1,756	31,677 [ 15,182 16,495 ]					<ul style="list-style-type: none"> <li>• Burden reduction for households frequently eligible for reimbursement</li> <li>• If a household has been eligible for reimbursement three times or more within a 12-month period, the amount of payment in part from the fourth time will be:               <ul style="list-style-type: none"> <li>(Low income persons) 35,400 yen</li> <li>(Average income persons) 72,300 yen + (medical costs - 361,500 yen) x 1%</li> <li>(High income persons) 139,800 yen + (medical costs - 699,000 yen) x 1%</li> </ul> </li> </ul>	Same as above (additional benefits)	Approx. 8.5% (Association-wide) average	Subsidies (Budgetary Aid)														
	Insured parties, as stipulated in Article 69, Par. 7, Health Insurance Law	National government	47 [ 31 15 ]	<ul style="list-style-type: none"> <li>• Burden reduction for households frequently eligible for reimbursement</li> <li>• If a household has been eligible for reimbursement three times or more within a 12-month period, the amount of payment in part from the fourth time will be:               <ul style="list-style-type: none"> <li>(Low income persons) 24,600 yen</li> <li>(Average income persons) 40,200 yen</li> <li>(High income persons) 77,700 yen</li> </ul> </li> </ul>					<ul style="list-style-type: none"> <li>• Sickness benefits</li> <li>• Lump-sum payment for childbirth, child care etc.</li> </ul>	Daily rate (Class 1) ¥140 Daily rate (Class 13) ¥2,750	13.0% of benefits (16.4% of benefits for the elderly)															
Seamen's insurance		National government	228 [ 84 145 ]	<ul style="list-style-type: none"> <li>• Aggregation of households</li> <li>• If there are multiple payments of more than 21,000 yen in the same month, reimbursement is calculated on the basis of their sum.</li> </ul>	Same as above	8.8%	Subsidies																			
Mutual aid insurance	National government employees	Mutual aid associations (23)	10,031 [ 4,494 5,591 ]	<ul style="list-style-type: none"> <li>• Burden reduction for households frequently eligible for reimbursement</li> <li>• If a household has been eligible for reimbursement three times or more within a 12-month period, the amount of payment in part from the fourth time will be:               <ul style="list-style-type: none"> <li>(Low income persons) 24,600 yen</li> <li>(Average income persons) 40,200 yen</li> <li>(High income persons) 77,700 yen</li> </ul> </li> </ul>	Same as above (additional benefits)	Approx. 7.8% Approx. 8.6% Approx. 8.5%	None																			
	Local government employees	Mutual aid associations (54)																								
	Private school instructors	Mutual aid associations (1)																								
National health insurance	Farmers; the self-employed	Municipalities 3,242	47,628	<ul style="list-style-type: none"> <li>• 30 percent</li> <li>○Outpatient medicine (children under 6 exempt) *same substance as health insurance</li> </ul>	<ul style="list-style-type: none"> <li>• Burden reduction for patients with diseases requiring long-term high-cost medical care</li> <li>• The amount that patients with hemophilia or with chronic kidney failure undergoing dialysis treatment, etc. need to bear is: 10,000 yen per month</li> </ul>	<ul style="list-style-type: none"> <li>• Lump-sum payment for childbirth, child care</li> <li>• Funeral Expenses etc.</li> </ul>	Each household is assessed a fixed amount based on ability to pay	50% of benefits																		
		Health insurance associations 166	Municipalities 43,374																							
	Retired workers eligible for employees' insurance benefits	Municipalities 3,242	Health insurance associations 4,254	<ul style="list-style-type: none"> <li>• 20 percent</li> <li>Family— inpatient 20 percent outpatient 30 percent</li> <li>○Outpatient medicine (children under 6 exempt) *same substance as health insurance</li> </ul>				(conditional benefits)	Calculations vary somewhat according to insurer	None																
Mutual aid associations for the elderly (aged 75 or older)	[Administrator] Municipalities	As of 31 March 2001 15,138 Employees' insurance 3,419 National Health insurance 11,719	10% (20% for those whose income exceeds a certain level)	<ul style="list-style-type: none"> <li>• If a household's payment in part exceeds the amount stated below, the excessive amount is reimbursed upon application. (In case of hospitalization, benefit in kind is provided.)</li> </ul>	<table border="1"> <thead> <tr> <th></th> <th>Maximum amount of payment in part</th> <th>Outpatient care (per person)</th> </tr> </thead> <tbody> <tr> <td>(Very low income among low income persons)</td> <td>15,000 yen</td> <td>8,000 yen</td> </tr> <tr> <td>(Low income persons)</td> <td>24,600 yen</td> <td>8,000 yen</td> </tr> <tr> <td>(Average income persons)</td> <td>40,200 yen</td> <td>12,000 yen</td> </tr> <tr> <td>(Persons with income exceeding a certain income)</td> <td>72,300 yen + (medical cost - 361,500 yen) x 1%</td> <td>40,200 yen</td> </tr> <tr> <td>(In case of frequent reimbursement)</td> <td>(40,200 yen)</td> <td></td> </tr> </tbody> </table>		Maximum amount of payment in part	Outpatient care (per person)	(Very low income among low income persons)	15,000 yen	8,000 yen	(Low income persons)	24,600 yen	8,000 yen	(Average income persons)	40,200 yen	12,000 yen	(Persons with income exceeding a certain income)	72,300 yen + (medical cost - 361,500 yen) x 1%	40,200 yen	(In case of frequent reimbursement)	(40,200 yen)		Provided by each medical insurance provider	<ul style="list-style-type: none"> <li>• [Bearer of expenses]</li> <li>• National government 136/600</li> <li>• Prefectures 34/600</li> <li>• Municipalities 34/600</li> <li>• Insurers 346/600</li> </ul>	(Until the end of September 2003)
	Maximum amount of payment in part	Outpatient care (per person)																								
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Sources: Annual Report on Health, Labour and Welfare, 2002, Ministry of Health, Labour and Welfare

Notes: 1) Anyone aged 75 or older (persons who turned 70 on or before 30 September 2002 are also included as exceptions) who subscribes to a medical insurance plan (excluding members of a household receiving Welfare, to whom the National Health Insurance Law does not apply), as well as those aged 65-69 who have been bedridden for an extended period of time, is eligible for health and medical-care services for the elderly.

2) Insurance premium rates for each type of mutual aid are as of March, 2000.

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

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

5) The number of persons in the Health Service System for the Elderly and the ratio of those covered by the system to the total population are preliminary figures.

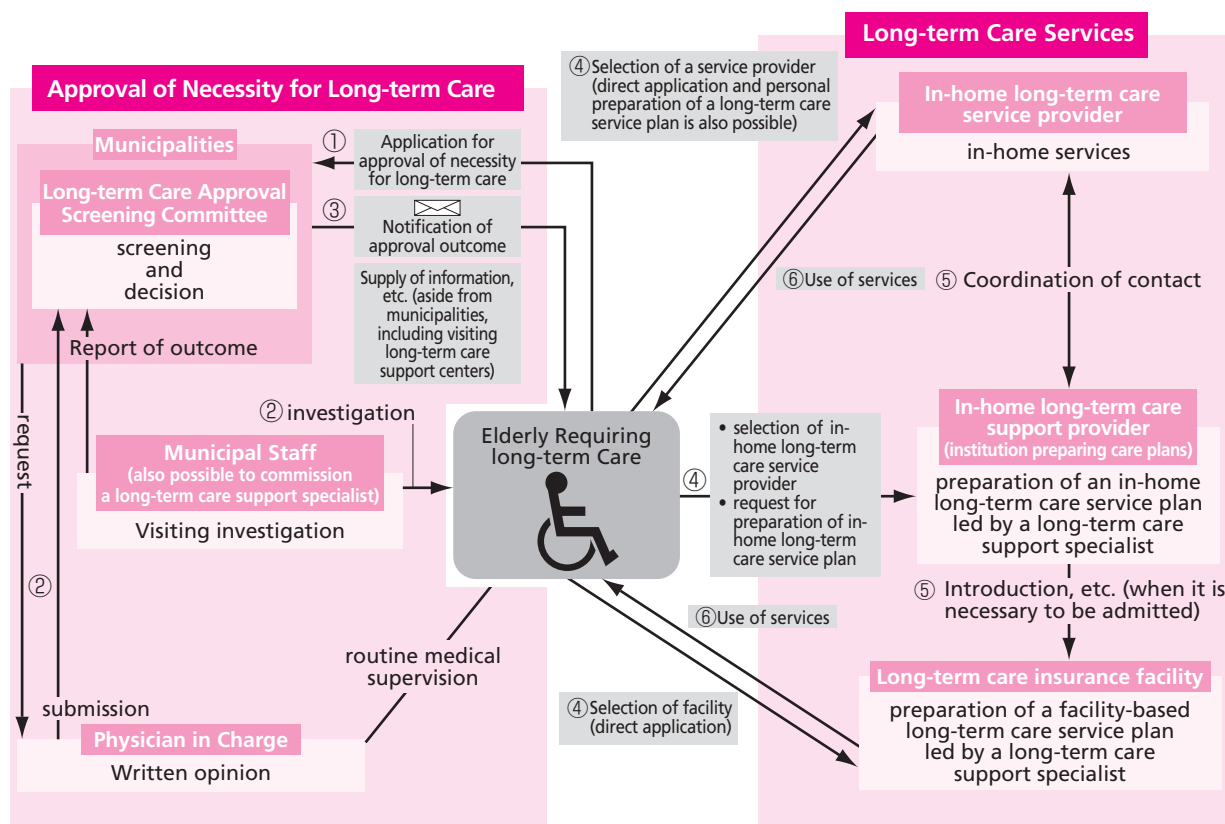


benefits in kind, selection by the person requiring long-term care shall be regarded highly; services will be carried out by a provider chosen by the recipient of the care from a list of locally approved long-term care service providers (see Figure VI-9).

Users with certification of long-term care need are responsible for 10% of the care service expenses. However, there are limits to the amount for which the users are held responsible so that the burden does not become a significant amount, and for amounts exceeding this limit, the high long-term care service

cost is provided by the municipalities, as their insurers. The number of subscribers to the long-term care insurance in FY2001 was 43 million for those aged 40 to 64, and 23 million for those aged 65 and above. As of April 2002, the number of people with certification of long-term care need or need for support amounts to 2.98 million, and there are 1.64 million recipients of long-term care (support) service at home and 670,000 recipients of long-term care service in institutions.

### VI-9 Long-term Care Insurance: Approval of the Necessity for Long-term Care and Method of Using Services



Source: Annual Report on Health and Welfare, 1999, Ministry of Health and Welfare