Chapter VI Social Security System

1 The Subject of Japan's Social Security System

Dwindling Birthrates and Aging Population

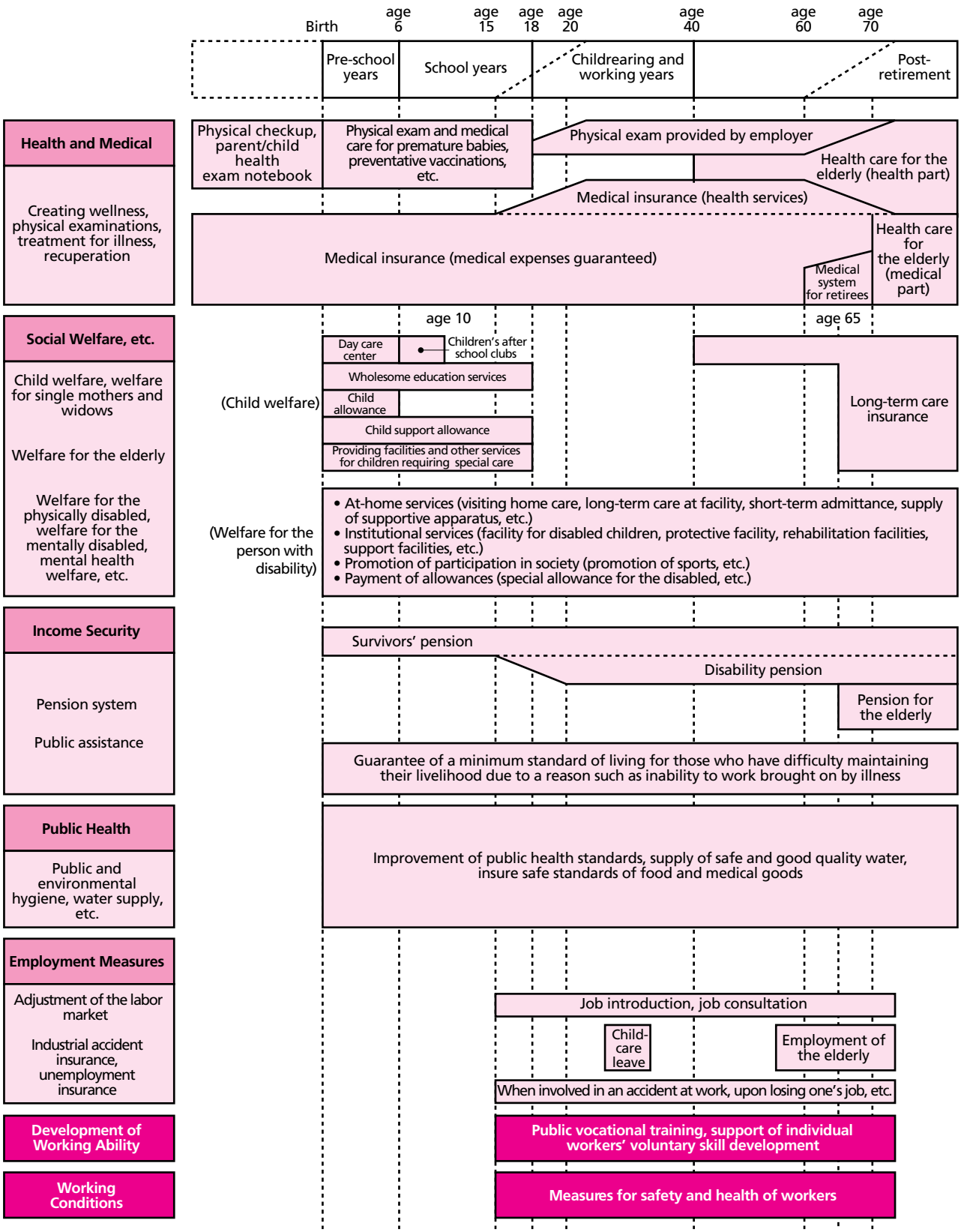
The social security system draws upon tax and social insurance for its revenue, and is a system that carries out social welfare programs to cope with the various risks in life faced by people such as those whose health has been damaged by illness or disability, and those who have been deprived of their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

The Benefits and Cost Burden of Social Security

In order to make an international comparison on the trend of social security, the Organisation for Economic Co-operation and Development (OECD) is disclosing information on indices of social expenditure that includes pension funds, medical care and welfare for the poor, child allowance that gets transferred, social security benefits from expenditures on welfare services and expenditures such as expenses for facility development that do not get transferred directly to individuals (OECD Social Expenditure Database 2001). Looking at the percentage of social expenditure occupying the national income, Japan's ratio is lower than European countries, but higher than the U.S. (see VI-2). In contrast, based on the figures in closely related years, the percentage of national income occupied by social security costs is low when compared with that in Germany, France, and Sweden, but higher than the U.S. and the U.K. (see VI-3). Japan's total fertility rate was 2.13 in 1970, which is close to the replacement-fertility level but lowered to 1.29 by 2003. Consequently, according to the 2005 National Census, the population growth rate of Japan's total population of 127.76 million was 0.7%, the worst growth rate since WWII, and the proportion of elderly persons (population aged 65 and over/total population×100) was 19.5%. 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).

Since the medical benefit per persons is approximately 5 times for the elderly compared to the generations still working, the progress of an aging society became a factor in the increase in social security benefits, as can be seen in Figure VI-4. Placing a premise for future movements in social security reforms and the trends in economic factors, the Advisory Council on Social Security released in 2005 an estimate regarding Japan's future social security benefits and cost burden (see VI-5). How to adjust such growth in the benefits and burden of social security and to cre-

VI-1 The Social Security System by Life Stage



Source: *Annual Reports on Health, Labour and Welfare, Figure 3-1-1*, 2001, Ministry of Health, Labour and Welfare

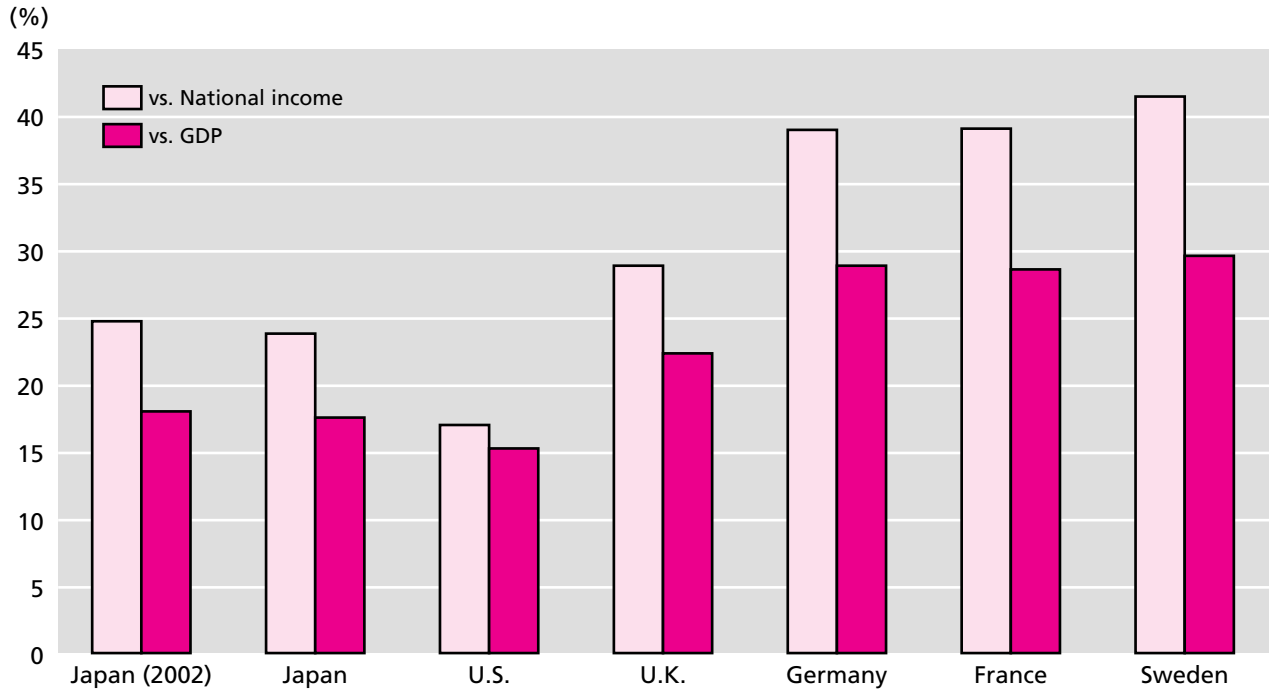
ate a sustainable social security system in the future when the working generations will decrease has become a challenge faced in Japan.

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

Looking at the trends in the Gini index, the index for measuring income inequality based on the Income Redistribution Survey, due to the increase in income disparity in the 1990s (see Gini index of initial income in VI-6), the need to increase income redistribution through social security in response to this has been heightening (see Redistribution Effects by Social Security in VI-6).

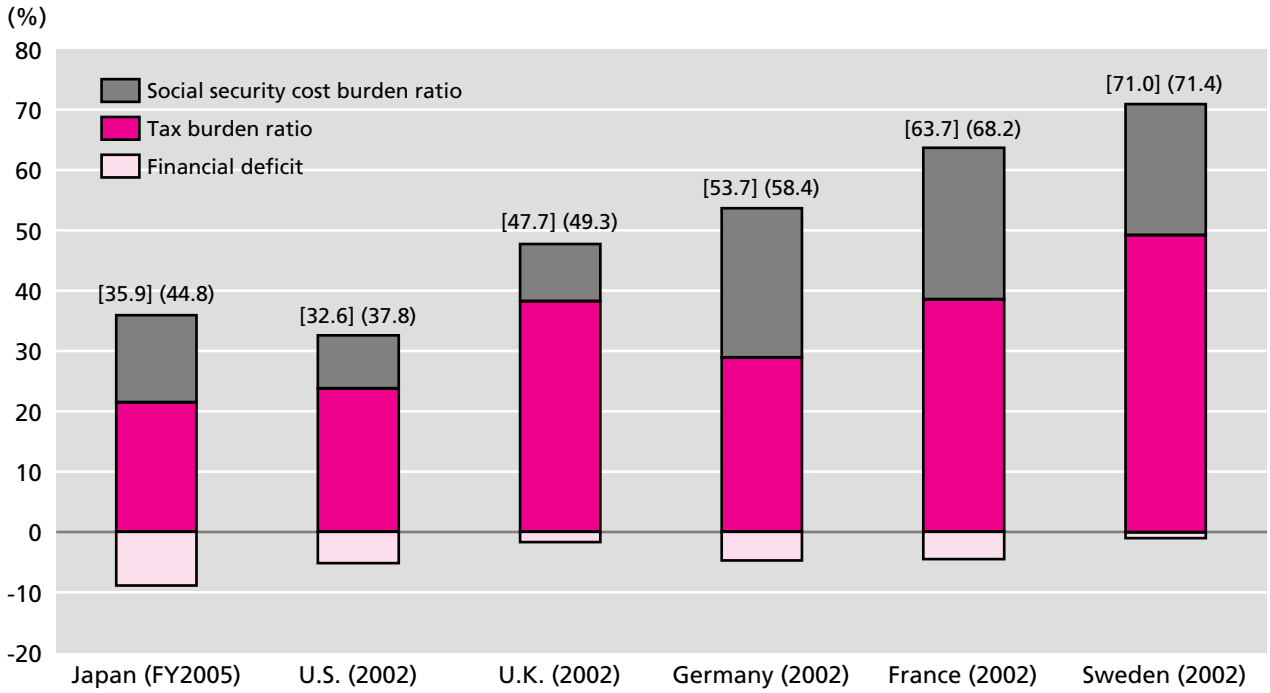
According to the OECD's international comparative study regarding income disparity, comparing the Gini index of the household equivalent disposable income, after-tax and social security (disposable) income (see VI-5), Japan's Gini index is larger than Western European countries, and smaller than the U.S. and U.K. Since there is a necessity to correct income disparity as the social security cost burden increases, the opinion report by the Advisory Council on Social Security (June 2003) points out that "there are disparities in income and property between each and every citizen, and a careful response based on such disparities is necessary," and "appropriate cost burdens should be even expected from elderly persons if they have income and property."

VI-2 Ratios of Social Expenditures Accounting for National Income and GDP



Sources: *The Cosf of Social Security in Japan 2003 (Reference Figure 1 International Comparison of the Social Expenditures vs. National Income and the GDP Ratios (2001))*, National Institute of Population and Social Security Research, http://www.ipss.go.jp/

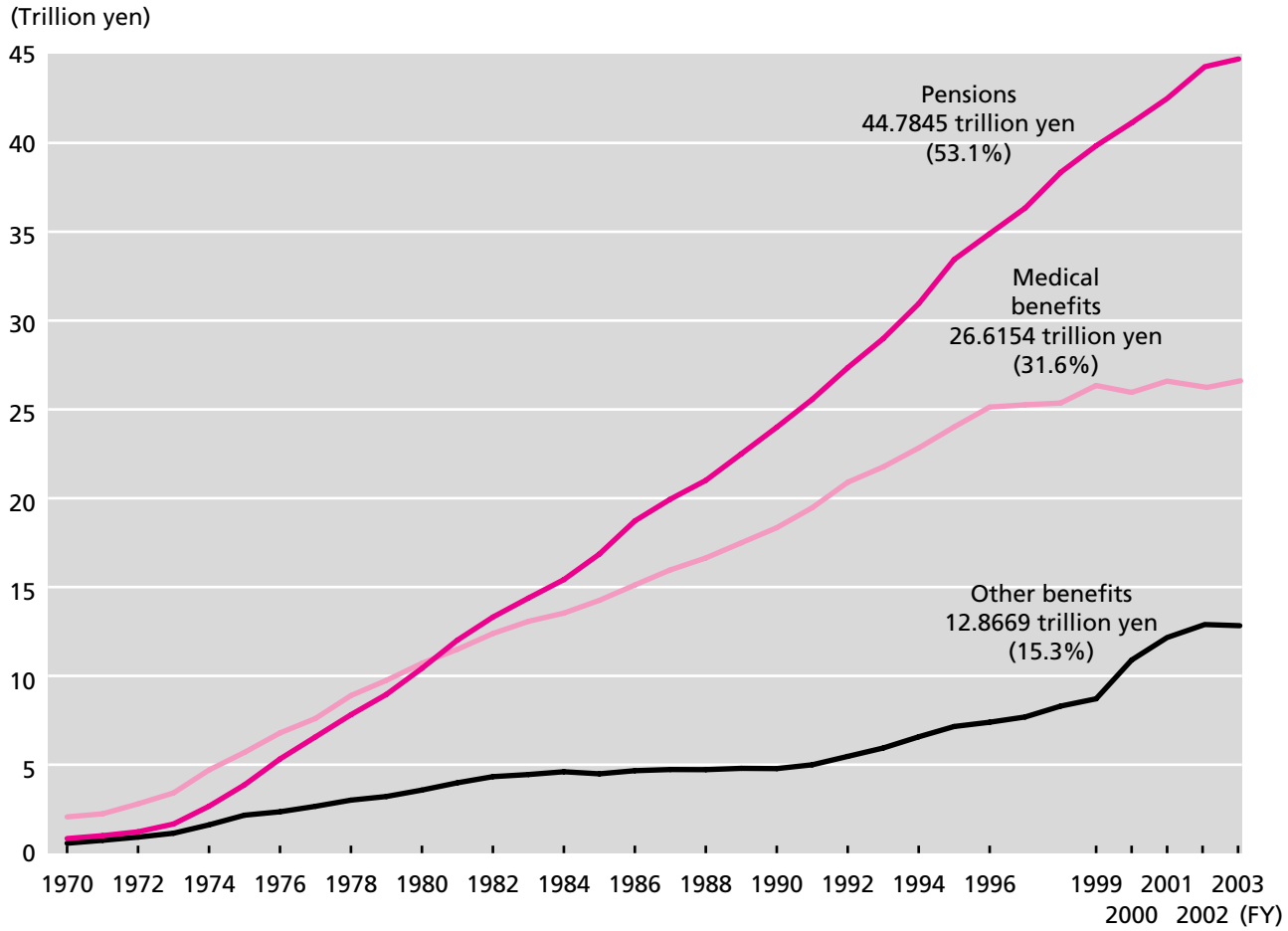
VI-3 International Comparison of the Breakdown of the National Burden Ratio



Source: Created from Data of Japan's National Tax System and the Overall Financial Status (National Burden Ratio of OECD Countries (including social insurance cost burden ratio; vs. national income)), October 2005, Ministry of Finance, http://www.mof.go.jp/jouhou/syuzei/siryou/238.htm

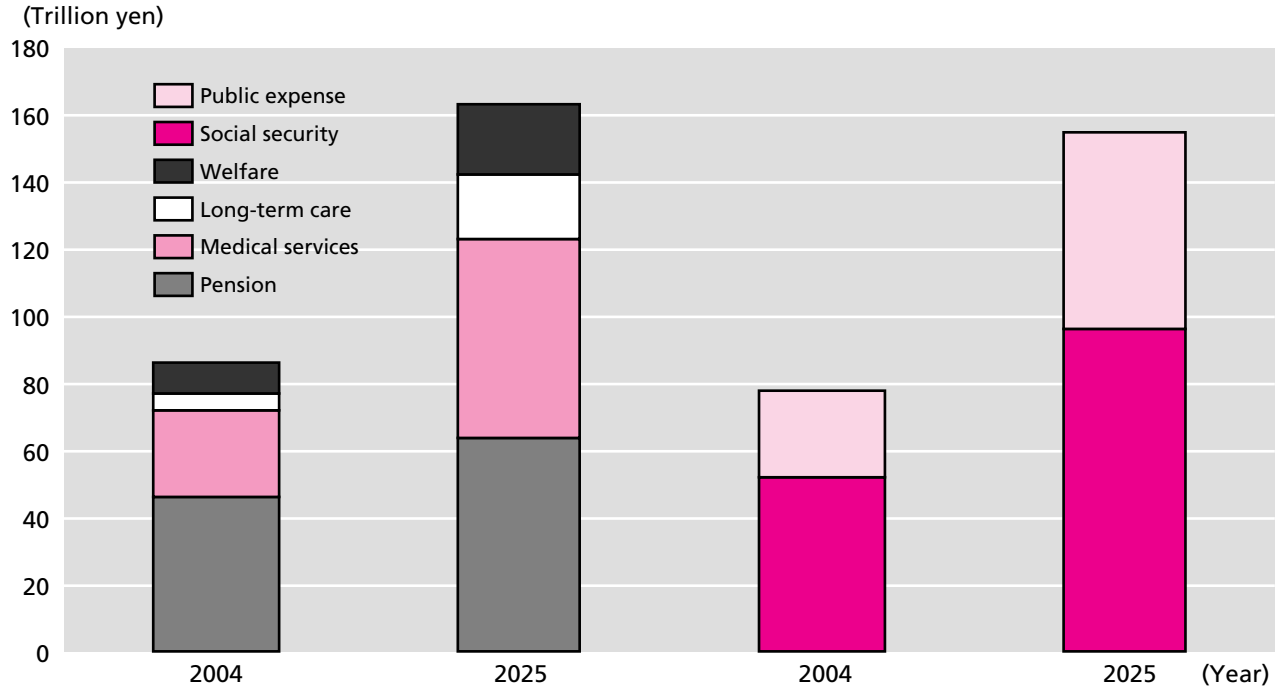
Notes: 1) Figures in [ ] are the National Burden Ratio (Social security cost burden ratio+ tax burden ratio, vs. national income ratio)
2) Figures in ( ) are the Potential National Burden Ratio including Financial Deficit (Social security cost burden + tax burden ratio+ ratio of financial deficit, vs. national income ratio)
3) Figures based on FY2005 budget for Japan, and the "Revenue Statistics 1965-2003" and "National Accounts 1991-2002," OECD, for other countries.
4) The tax burden ratio is the total figure of national tax and regional tax. Income tax includes taxes on property income.
5) Figures for financial deficits in Japan and the U.S. are based on general government deficit excluding social security funds, and other countries are based on general government deficit.
6) Due to rounding off, there are instances where the sum of the count for each item does not match the total figure.
7) Figures for elderly population ratio in Japan is based on the estimated figure of 2005 ("Population Projections for Japan: 2001-2050," estimated in January 2002, National Institute of Population and Social Security Research) and other countries are based on figures from 2000 ("World Population Prospects: The 2004 Revision Population Database," U.N.)
http://www.ipss.go.jp/

VI-4 Changes in Social Security Benefits by Category



Source: *Social Security Benefit Costs, 2001*, National Institute of Population and Social Security Research
http://www.ipss.go.jp/

VI-5 Outlook on Social Security Benefits and Cost Burden



Source: *Outlook on Social Security Benefits and Cost Burden*, estimated in May 2004, Counsellor for Social Security, Office of the Director-General of Policy Planning and Evaluation, Ministry of Health, Labour and Welfare

VI-6 Current Condition of Income Disparity and Redistribution Effects by Social Security (Gini Index)

	Initial income	Income after redistribution		Income after tax redistribution (Initial income - tax)		Income after social security redistribution (Initial income + benefit in kind + 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 $\left(\frac{A-D}{A}\right)$
			%		%		%
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
1996	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
2002	0.4983	0.3812	23.5	0.4941	0.8	0.3917	21.4

Sources: *Study Report on Income Redistribution,* Counsellor for Policy Evaluation, 2002, Office of the Director-General of Policy Planning and Evaluation, Ministry of Health, Labour and Welfare
Note: The benefit in kind before 1999 is only for medical care, while medical care, long-term care, and child care are included in 2002.

2 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 VI-7) 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 benefits proportionate to salaries in addition to the basic pension.

Japan's pension system is revised once every 5 years based on recalculations of pension financing. In the pension reform of 2004, it has been decided to adjust the benefits standards along with the economic situation and the progress of an aging society (however, it is aimed that the standards should not go below 50% of the income of the working generations), instead of fixing the future insurance burden to a certain level (18.3% after 2025, in the case for employees' pensions), drawing from Sweden's pension reform of 2001, etc. The basic pension premiums for the self-employed are a fixed amount (13,300 yen per month in 2004). On the other hand, the pension premiums for salaried workers and government employees are covered equally by the labor and management, and is 13.58% of the total compensation combining the salaries and bonuses (in 2004).

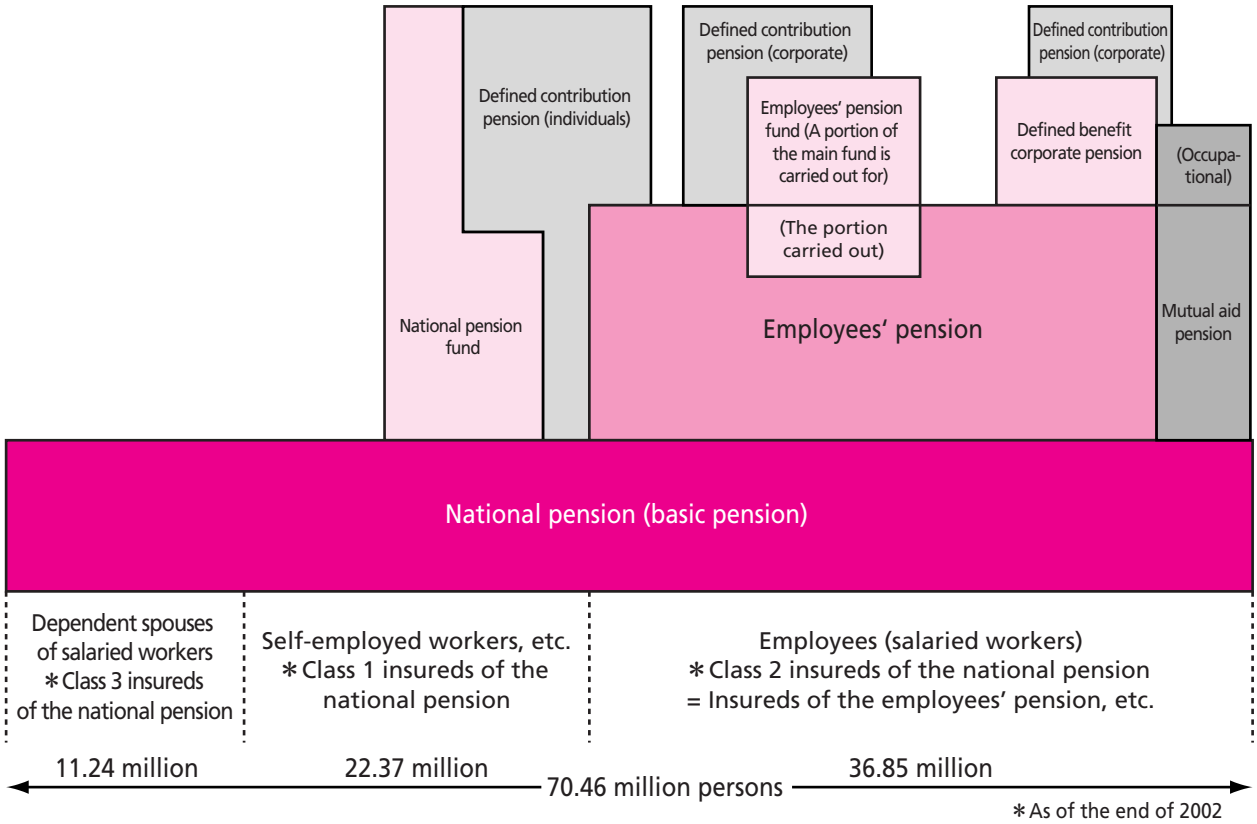
There is a survivors' pension for the bereaved of the subscriber and beneficiary of the pensions system, and in case the subscriber has or become physically disabled, a disability pension is provided under specific conditions. The trends of the number of beneficiaries of the pension and the amount of benefits paid can be seen in Table VI-8. Due to the pension reform of FY2004, ever since October 2004 the benefits for the basic pension has been 65,075yen per month, and the amount of old-age pension of employees' pension was 230,700 yen when combining the married couples' basic pension and the husbands' earnings-related component.

For the corporate pension that compensates such public pensions, there has been the employees' pension fund and the tax-qualified pension targeting salaried workers. However, since there were problems in protecting vests and the portability of reserves, the defined benefit corporate pension and the defined contribution corporate pension were introduced in 2001 to solve such problems. Furthermore, there is the national pension fund as a pension supplementing the basic pension, for self-employed workers.

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 (For the Assistance Measures to Balance Work and Family and for the Gender Equal Employment Policies, see Chapter V).

VI-7 The Pension System



Source: *Revised Points of the Pension System* Pension Bureau, 2004, Ministry of Health, Labour and Welfare

VI-8 Annual Trends of the Number of Public Pension Subscribers and the Number of Public Pension Beneficiaries

(1,000 persons)

FY	Insured persons					Number of Beneficiaries				
	Total	Basic pension (Self-employed workers, etc.: Class 1 insureds)	Basic pension (Full-time house wife: Class 3)	Employees' pension	Mutual aid association	Total	Basic pension	Basic pension by national pension before 1986	Employees' pension	Mutual aid association
1987	64,105	15,823	9,268	28,216	5,299	22,523	1,118	8,959	8,910	1,488
1990	66,313	17,579	11,956	31,493	5,285	25,001	1,905	9,096	10,647	964
1995	69,952	19,104	12,201	33,275	5,372	32,363	6,898	7,853	14,254	400
2000	70,491	21,537	11,531	32,192	5,231	40,906	13,070	6,234	13,070	137
2003	70,292	22,400	11,094	32,121	4,677	46,901	16,865	5,246	16,865	62

Source: *Annual Reports on Health, Labour and Welfare-References*, 2005, Ministry of Health, Labour and Welfare

3 Medical Insurance and Long-Term Care Insurance

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 VI-9, 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 VI-9, 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 seen in Figure VI-3, although medical expenses increased in the 1990s, the increase has become modest in recent years (the ratio of national medical expenses to national income has been shifting between 8.0%-8.9% since 2003). However, a reform of high-cost medical care system is being discussed since the amount of contributions from the national health insurance and the health insurance association to the elderly insurance system has increased due to the aging society, and is making medical insurance financing difficult. Given such backgrounds, the elderly insurance system's self-pay ratio for general elderly persons became 10% starting October 2002, and that of high-income elderly persons were brought up to 20% in accordance with the guidelines for the outline of elderly medical care. Furthermore, in April 2003 the self-pay ratio of the health insurance targeting workers was raised from the 20% of medical benefits to the 30%, the same as in national health insurance.

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

For the provision of long-term care services as benefits in kind, selection by the person requiring long-term care shall be regarded highly; services will be carried out by a provider chosen by the recipient of the care from a list of locally approved long-term care service providers (see VI-10). 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 Long-term Care Insurance Act was revised in 2005 upon the introduction of the long-term care insurance system (2002) that stipulated to reconsider it 5 years later. With this, efforts were decided to be made in the framework of the long-term care insur-

VI-9 The Medical Insurance System

(As of April 2006)

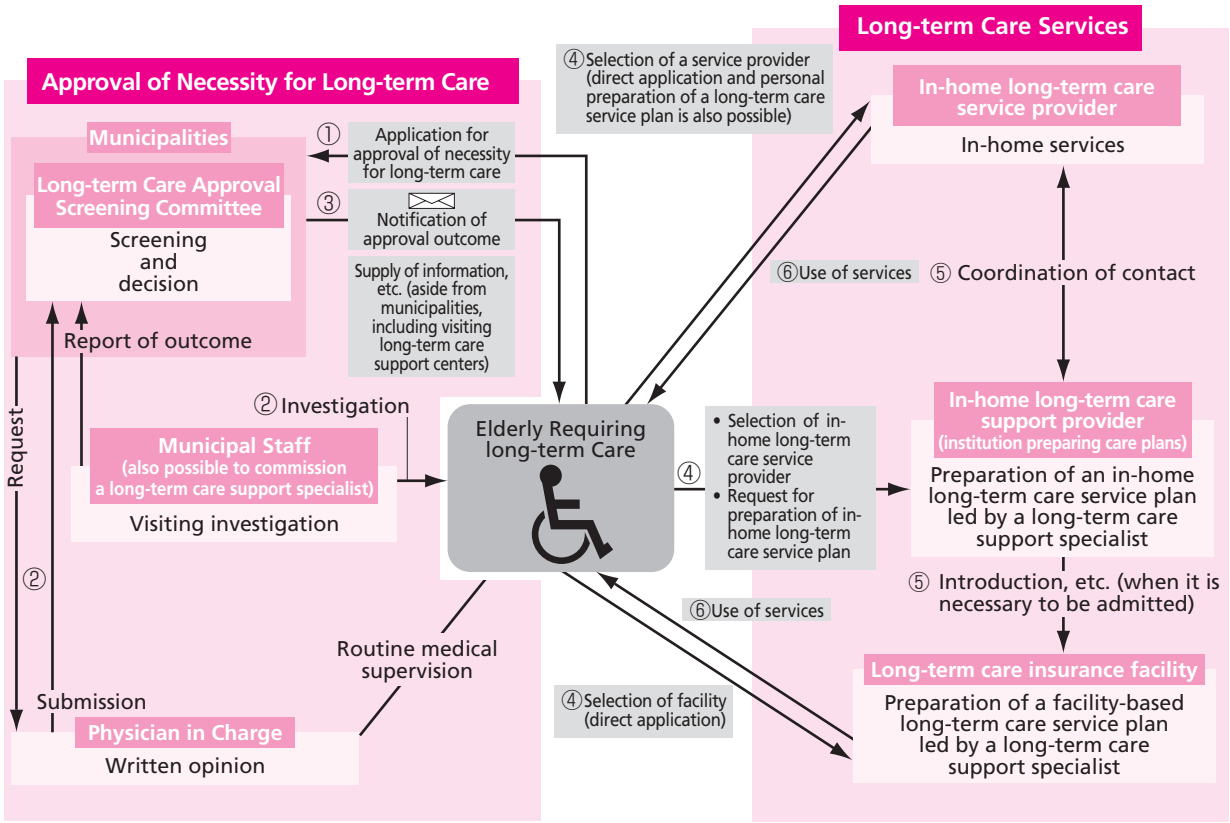
Plan			Insurer (As of 31 March 2005)	Subscribers (As of 31 March 2005) and subscriber's dependents (Unit: 1,000 persons)	Insurance Benefits				Financial resources	
					Medical Benefits			Cash Benefits	Insurance premiums	Government subsidies
					Payment in part	High-Cost Medical Care Benefits	Hospital Meal Charge Benefits			
Health insurance	Ordinary employees	Government-managed	National government	35,616 [18,931 16,686]	30% with following exceptions Aged less than 3: 20%; 70 and over: 10% (20 % for those whose income exceeds certain level)	Maximum amount paid by the patient: (Low income persons) 35,400 yen (Average income persons) 72,300 yen + (medical costs – 241,000 yen) x 1% (High income persons) 139,800 yen + (medical costs – 466,000 yen) x 1% Standard amount for aggregation of households: If there are multiple payments of more than 21,000 yen in the same month, reimbursement is calculated on the basis of their sum. Burden reduction for those with multiple cases: 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: (Low income persons) 24,600 yen (Average income persons) 40,200 yen (High income persons) 77,700 yen Burden reduction for patients with diseases requiring long-term high-cost medical care The amount that patients with hemophilia or with chronic kidney failure undergoing dialysis treatment, etc. need to bear is: 10,000 yen per month Those aged 70-74: same as elderly insurance	(Standard amount paid by the patient) * Average income persons: 260 yen/day * Low income persons: 210 yen/day for 1-90 days * Low income persons: 160 yen/day for 91 days and over Those aged 70-74: same as elderly insurance	• Sickness benefits • Lump-sum payment for childbirth, child care etc.	8.2%	13.0% of benefits (16.4% of benefits for the elderly)
		Association-managed	Health insurance associations 1,584	29,990 [14,787 15,203]				Same as above (additional benefits)	—	Subsidies (Budgetary Aid)
	Insured parties, as stipulated in Article 3, Par. 2, Health Insurance Law		National government	28 [17 11]				• Sickness benefits • Lump-sum payment for childbirth, child care etc.	Daily rate (Class 1) ¥150 Daily rate (Class 13) ¥3,010	13.0% of benefits (16.4% of benefits for the elderly)
Seamen's insurance			National government	175 [66 109]				Same as above	9.1%	Subsidies
Mutual aid insurance	National government employees		Mutual aid associations (21)	9,711 [4,449 5,262]				Same as above (additional benefits)	—	None
	Local government employees		Mutual aid associations (54)						—	
	Private school instructors		Mutual aid associations (1)						—	
National health insurance	Farmers; the self-employed		Municipalities 2,531	51,579 Municipalities 47,609 Health insurance associations 3,970				• Lump–sum payment for childbirth, child care • Funeral Expenses etc. (conditional benefits)	Each household is assessed a fixed amount based on ability to pay Calculations vary somewhat according to insurer	43% of benefits
			Health insurance associations 166							32–55% of benefits
	Retired workers eligible for employees' insurance benefits		Municipalities 2,531							None
Health and Medical Service Act for the Aged			[Administrator] Municipalities	As of the end of February 2005 14,532 Employees' insurance 2,676 National Health insurance 11,857	10% (20% for those whose income exceeds a certain level)	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)		Same as above Low income persons with exceptionally low income: 300 yen/day	Provided by each medical insurance provider	[Bearer of expenses] • Insures 54% • Public 46% (Breakdown of public expenses) National : Prefectures : Municipals 4 : 1 : 1 (from October 2005 to end of September 2006)	

Sources: *Annual Reports on Health, Labour and Welfare, 2006*, Ministry of Health, Labour and Welfare

Notes: 1) Persons eligible for health and medical care services for the Aged are the subscribers of any health care insurance aged 75 or older (persons who turned 70 on or before 30 September 2002 are also included as exceptions) as well as those aged 65-74 who are bedridden.
2) The proportion of government subsidy provided to the subscribers and their families through the national health insurance association will be the same as that of government-managed health insurance if they have obtained approval for health insurance eligibility exemption and re-subscribed anew on 1 September 1997 onwards.
3) Low income person means those who fall under the household exempted of municipal tax.
4) Figures for association-managed health insurance, mutual aid insurance, national health insurance, and Health and Medical Service for Aged are preliminary figures.

ance to prevent a condition where care is necessary, to establish comprehensive regional support centers to provide community based service, and to strengthen the coordination between medical and nursing cares. The number of insured persons of the long-term care insurance as of the end of FY2002 was 42.65 million for those aged 40 to 64, and 28.63 million for those aged 65 and above. As of the end of FY2002, the number of recipients of long-term care (support) services at home was 2.32 million, and that of long-term care services at institutions was 750,000 persons.

VI-10 Long-term Care Insurance: Approval of the Necessity for Long-term Care and Method of Using Services



Source: *Annual Reports on Health and Welfare, 1999,* Ministry of Health and Welfare