

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

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

Due to various factors, economies around the world are in a complex situation whereby economic growth is not necessarily possible in all countries. In its Economic Outlook, the Organisation for Economic Co-operation and Development (OECD) states that low-interest policies and other economic measures by the EU are underpinning growth in European economies, taking the economic growth rate in EU countries to an average of 1.8% in 2015. In Japan too, economic recovery has been achieved on the back of low-interest policies and a growth strategy based on Abenomics, resulting in a growth rate of 1% in the first quarter of 2015 (converted to real growth of 3.6% per annum). Conversely, the US economy fell to an annual growth rate of 0.2% in the first quarter of 2015, owing to the strength of the US dollar. Growth rates in China and Brazil, emerging economies that are expanding trade with the developed world, have also become unstable. In China, the target for economic growth in 2015 was reduced by 0.5% to 7% at the 2015 National People's Congress. Meanwhile, the International Monetary Fund (IMF) forecasts that Brazil's economic growth rate will be -1% in 2015.

Economic policy for business recovery by the Japanese government under complex economic conditions has caused Japan's unemployment rate to fall to a national average of 3.5%. There is significant regional disparity in this rate, however, with a spread from the smallest figure of 1.8% to the largest of

5.5%, depending on the prefecture<sup>1</sup>. This is due to the difference in employment situations between regions that have manufacturing industries, IT enterprises and other export-related industries and those that do not. Similarly, the ratio of job offers to job seekers by prefecture ranges from a low of 0.69 to a high of 1.61, exceeding 1.0 in Tokyo, Aichi and Osaka but remaining below 1.0 in many prefectures where there are no major cities. This leads to fears over an expansion of the regional population imbalance and an increase in elderly populations (even faster rate of population aging) in urban areas in future, due to a continuing trend for younger people to seek work in the cities. To address this, the government has drawn up a "Comprehensive Strategy for Vitalization of Towns, People, and Jobs" (2014), set up "Headquarters for Vitalization of Towns, People, and Jobs", and developed a system for the government as a whole to tackle efforts enabling each region to create autonomous and sustainable societies drawing on their respective characteristics.

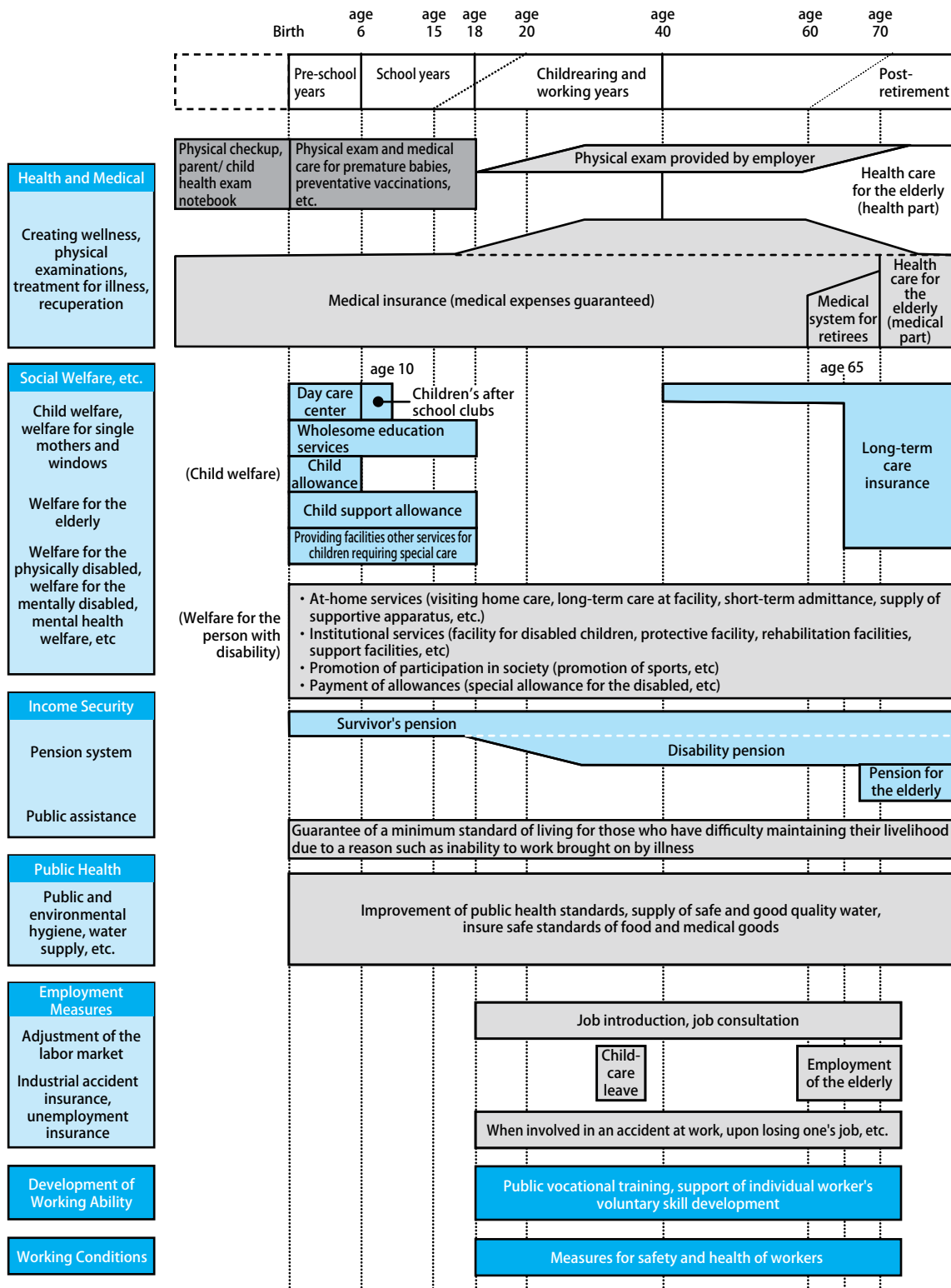
Amid this complex situation, a system of social security that guarantees people's livelihoods, based on funding from taxes and social insurance, is playing an important role in addressing the various risks that arise in people's lives, including loss of income due to unemployment or retirement, sickness, disability, etc. Japan's social security system is similar to those in Europe and the U.S. in that, to satisfy each stage of people's lives, it is composed of such elements as medical insurance, public health services, social welfare services, income maintenance, and

<sup>1</sup> Statistics Bureau, Ministry of Internal Affairs and Communications, "Labour Force Survey" (Basic Tabulation) Results by Prefecture (published May 29, 2015)

employment measures (see Figure VI-1). Of these, medical insurances, health care programs for older people, long-term care insurance and pension systems, as well as unemployment insurance and industrial accident compensation insurance are the social insurances that are mainly financed by social insurance premiums and partly subsidized by the government revenues. In contrast, welfares for the child, for single mothers and widows, for older

people, for people with disabilities, and for the poor as well as public health services are all public policies provided with funds drawn from taxes. Internationally speaking, the characteristics of long-term care insurance and health care programs for older people in Japan is that they are half funded at public expense out of tax revenues although they are included in social insurance.

**Figure VI-1 Social Security System by Life Stage**



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

## The Benefits and Cost Burden of Social Security

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

Japan's expenditure on social security benefits is rising as the birthrate declines and the population ages. According to the Statistics Bureau of the Ministry of Internal Affairs and Communications, the total population of Japan including foreign nationals was 127,083,000 as of October 1, 2014, falling for the 4th straight year from its peak in 2008. By contrast, the population aged 65 and over (the "aging population") grew by 1,102,000 to 33,000,000. The ratio of the aging population to the total population

was 26.0%, while the ratio of persons aged 75 and over reached 12.5%, both of these hitting new record highs.

This progression of aging has led to an increase in the number of pension benefit recipients, and has also caused a rise in healthcare expenditure, because older generations receive 4.4 times as much in medical benefits per person as active working generations (Ministry of Health, Labour, and Welfare, *Estimates of National Medical Care Expenditure in Fiscal Year 2013*). Growth in healthcare expenditure decreased temporarily with the introduction of long-term care insurance in 2000, but a rising trend has returned since then. Besides this, the progression of aging has led to more elderly persons requiring long-term care, in line with the expanding population of elderly persons over the age of 75, and this has also caused an increase in long-term care benefits. As a consequence, the rise in expenditure on social security benefits, including pension, health care, and long-term care insurance benefits, continues (see Figure VI-3). While expenditure on benefits (especially for older people) has risen in response to population aging, expenditure on welfare-related benefits, including child welfare, continues to account for a small proportion of Japanese expenditure on social security benefits due to the insufficient expansion of childcare-related benefits compared with Scandinavia and France, despite the importance attached to reversing the decline of the birthrate (Figure VI-3).

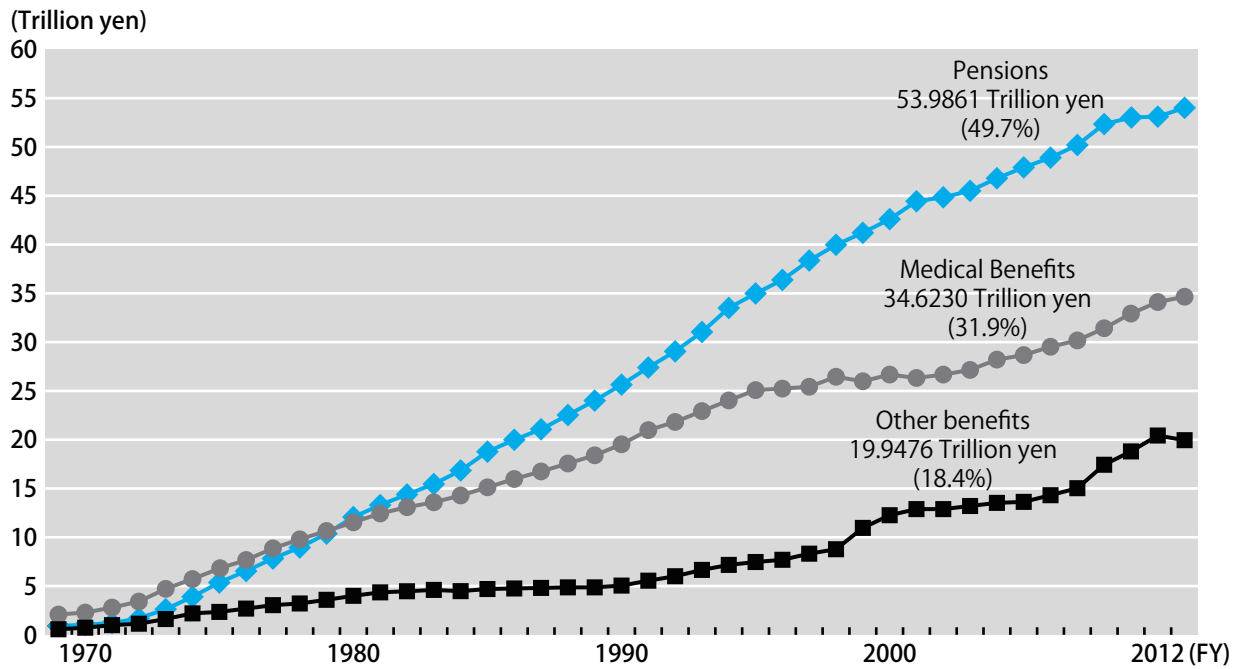
**Table VI-2 International Comparison of Social Expenditures and National Burden Ratios**

	Japan (2012)	Japan	United States	United Kingdom	Germany	Sweden	France
Social expenditure (% of national income)	23.83	23.65	19.3	23.53	26.77	27.58	31.36
Social expenditure (% of GDP)	32.11	32.09	24.34	30.57	34.74	38.27	42.14
National burden ratio (% of national income)	43.4		31.1	46.7	52.2	56.1	65.7

Sources: Ratios of social expenditure to GDP and to national income – OECD Social Expenditure Database (2014 edition) and National Institute of Population and Social Security Research, *The Financial Statistics of Social Security in Japan (FY2012)*, Table 6 International comparison of Social Expenditure (2011), based on SNA statistics

National burden ratios – Ministry of Finance, *Sourcebook of Japan's Fiscal Administration*, II-11. International Comparison of National Burden Ratios

**Figure VI-3 Changes in Social Security Benefits by Category**

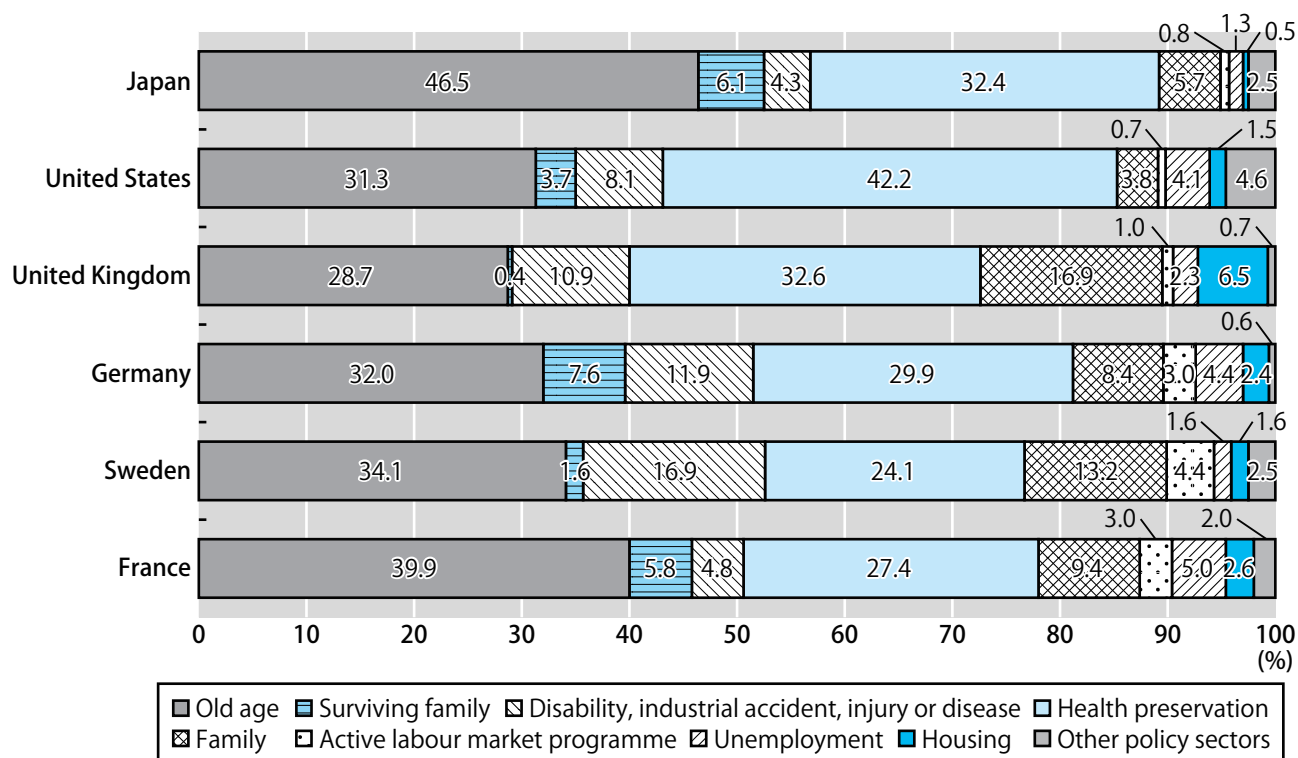


Source: National Institute of Population and Social Security Research, *Financial Statistics of Social Security in Japan (FY2012)*

As a result, if one looks at an international comparison of the structural mix of social expenditure by government field (Figure VI-4), one can see that whereas in Japan, 47.9% of social security benefit costs are spent on social security payments to older people, the expenditure on family-related policy, including benefits for households with children, and expenditure on protecting livelihoods and other issues account for only 4.2% and 1.1% respectively. Even in

the USA, where the ratio of spending on family-related policies is small, expenditure on livelihood protection and other issues is larger than Japan's at 3.8%. In Europe, the emphasis is on welfare for households with children. Here, the ratio of family-related policies to social security benefit costs is 7.3% in Germany, 9.9% in France, 12.4% in Sweden and 15.3% in the UK, more than twice Japan's level.

**Figure VI-4 International Comparison of the Structural Mix of Social Expenditure by Government Field (FY2011)**



Source: National Institute of Population and Social Security Research, "Financial Statistics of Social Security in Japan (FY2012)", Figure 3 International Comparison of Social Expenditure by Policy Area in FY 2011

Trends in social security benefit costs are impacted by Japan's declining birthrate and population aging, both of which are expected to continue. According to "Population Projections for Japan (Jan. 2012 estimates)" by the National Institute of Population and Social Security Research, the ratio of older persons to the general population was 23.0% in 2010 but is expected to continue growing. The ratio is forecast to reach 33.4% in 2035, when one person in every three will be elderly, and 39.9% in 2060, when the elderly population will include one in every 2.5 people. As this kind of increase in the elderly population leads to growth in pension, medical and nursing benefits, unified reforms of social security and tax were started in 2012. The purpose of these reforms was both to reduce future increases in social security benefits and to secure the financial resources needed for these. As part of this, the consumption tax rate was raised from 5% to 8% in April 2014 to

provide financial resources for social security. However, a further rise in the consumption tax rate is expected to be carried out in or after 2015, providing the economic situation remains good. Meanwhile, each time social security benefits increase, the public burden also rises and the government's budget tightens, making it as hard as ever to eliminate the fiscal deficit. Moreover, because there is no change in the structure of social security benefits, whereby pension, medical and nursing social security benefits are generous while benefits to support family policies and childcare are not so, problems such as nursery waiting lists and poverty in households with children are still important issues.

### The Widening Income Gap and Correcting Disparity

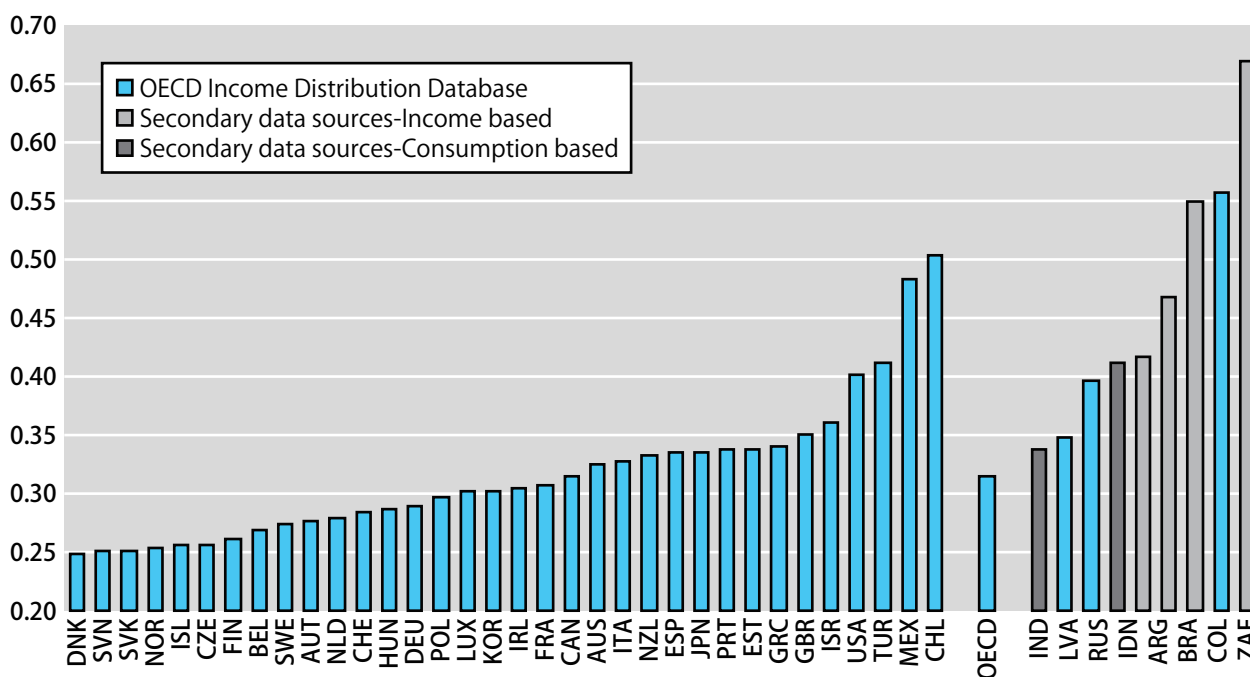
According to international comparative research on income inequality by the OECD<sup>2</sup>, income disparity

<sup>2</sup> OECD (2015) *In It Together: Why Less Inequality Benefits All*, OECD publications

is tending to widen in many OECD member states and newly emerging economies. The causes of this are said to include the impact of international competition on wage levels due to economic globalization and an increase in non-regular workers. If we compare the Gini coefficients of equivalent disposable income (disposable income per household member with adjustment of household scale) after income transfer due to taxation and social security,

Japan's Gini coefficient is larger than those of the Scandinavian countries, Germany, France and South Korea but smaller than those of the USA and UK, and about the same as those of Spain, Portugal, Greece and other Mediterranean countries (Figure VI-5). The Gini coefficients of newly emerging economies are even larger. These countries have been joining the OECD as partners and have started efforts aimed at correcting income disparity in recent years.

**Figure VI-5 State of Income Disparity in OECD Member States and Emerging Economies**



Sources: OECD Income Distribution Database (IDD), [www.oecd.org/social/income-distribution-database.htm](http://www.oecd.org/social/income-distribution-database.htm), for OECD countries, Latvia, Russian Federation and Colombia. World Bank, Poverty and Inequality Database for India. Statistics Indonesia (Susenas) for Indonesia. SEDLAC database for Argentina and Brazil. National Bureau of Statistics of China for China. National Income Dynamics Survey (NIDS) from Finn, A. and M. Leibbrandt (2013), "Mobility and Inequality in the First Three Waves of NIDS", SALDRU Working Paper, No. 120 and NIDS Discussion Paper, No. 2013/2, SALDRU, University of Cape Town, for South Africa.

Note: Data refer to 2014 for China, 2013 for Finland, Hungary, Israel, Netherlands and the United States and India, 2011 for Canada, Chile, Turkey and Brazil, 2010 for Indonesia, 2009 for Japan, and 2012 for the other countries. See note to Table 1.A1.1. Data from secondary data sources are not strictly comparable and should be interpreted with caution. Gini coefficients are based on equivalised incomes for OECD countries, Colombia, Latvia and Russian Federation and per capita incomes for other countries except India and Indonesia for which per capita consumption was used.

Given Japan's relatively large income disparity compared to other OECD countries, the government pointed out, in "Comprehensive Reform of Social Security and Tax" (Cabinet decision of February 2012), that "Japan's society and social security system today... (part omitted) face problems including those of poverty and disparity, intergenerational inequality, and growing social exclusion. In order to address these problems, we are required to ensure the

sustainability and strengthen the functions of social security systems such as pensions, healthcare, long-term care and childcare". In line with this, social security policies aimed at narrowing income disparity (such as by raising levels of subsistence protection) have been implemented. As a result, the redistribution coefficient ((Gini coefficient before redistribution – Gini coefficient redistribution) / Gini coefficient before redistribution) has been rising since the second

half of the 2000s, and the income redistribution function of social security has been intensified (Ministry of Health, Labour and Welfare, “Results of the 2008 Survey on the Income Redistribution Survey Results”). As stated in 1 above, however, the ratio of family-related benefits (including benefits for households with children) in social security benefit costs is smaller than in Scandinavia and France. This gives rise to a problem in terms of poverty rates, namely that, of households with children, the poverty rate of single-parent households including single-

mother households is particularly high when compared to the poverty rate of all households (relative poverty rate) and to that of two-parent households. In August 2014, the government compiled the “Charter on Measures against Child Poverty”, and based on this, the whole government is to make concerted efforts including educational support and subsistence support for households with children, and employment support and financial support for parents and guardians.

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

Year of survey	Gini coefficient				Rate of improvement in Gini coefficient		
	Equivalent initial income (1)	(1) + social security benefits - social security contributions (2)	Equivalent disposal income ((2) - tax) (3)	Equivalent income after redistribution ((3) + benefits in kind) (4)	Rate of improvement due to redistribution *1	Rate of improvement due to social security *2	Rate of improvement due to taxation *3
1996	0.376	0.327	0.312	0.310	17.7	13.7	4.7
1999	0.408	0.350	0.337	0.333	18.4	15.3	3.7
2002	0.419	0.337	0.323	0.322	25.3	19.9	4.3
2005	0.435	0.336	0.322	0.323	25.9	22.8	4.1
2008	0.454	0.343	0.327	0.319	29.7	26.2	4.7
2011	0.470	0.342	0.322	0.316	32.8	28.6	5.8

Source: *2011 Survey Report on the Redistribution of Income* (Ministry of Health, Labour and Welfare Director-General for Policy Planning and Evaluation <Responsible for Social Security>)

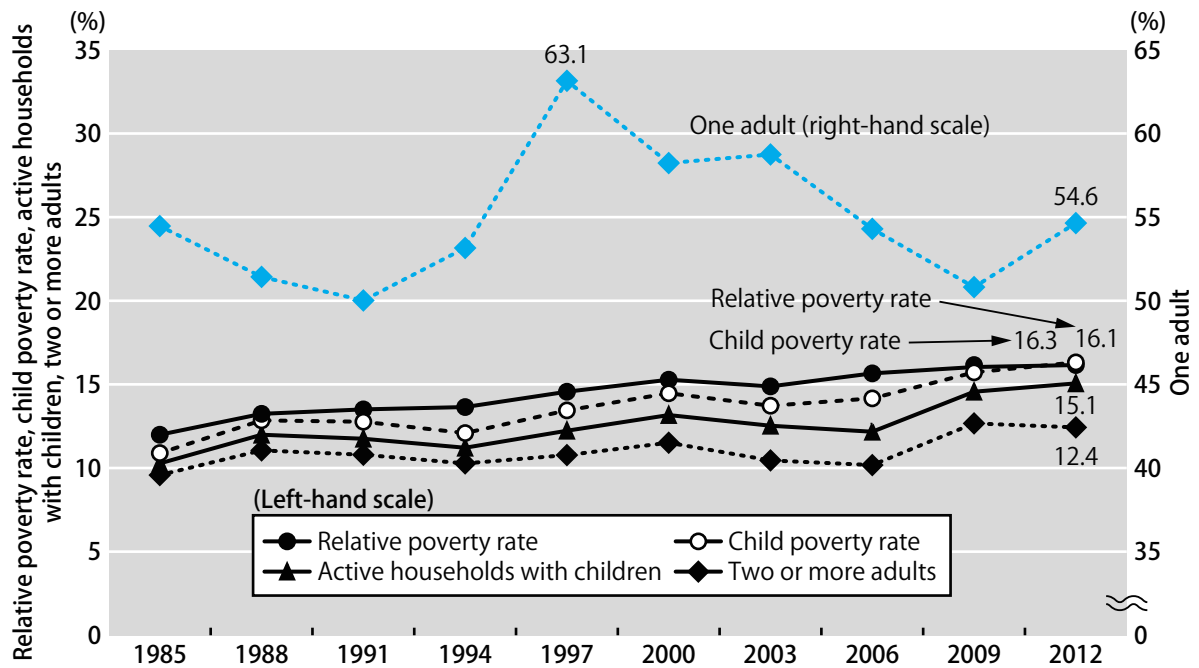
Notes: 1) Rate of improvement due to redistribution =  $1 - (4) / (1)$

2) Rate of improvement due to social security =  $1 - (2) / (1) \times (4) / (3)$

3) Rate of improvement due to taxation =  $1 - (3) / (2)$



**Figure VI-7 Comparison of All- household Poverty Rate (Relative Poverty Rate), Child Poverty Rate, and Poverty Rate of Households with Children**



Source: *Summary Report of the 2013 Comprehensive Survey of Living Conditions*, 7. Situation of Poverty Rates, Fig. 19 Annual Trends in Poverty Rates

Notes: 1) Figures for 1994 do not include Hyogo Prefecture.

2) Poverty rates are calculated based on standards formulated by the OECD.

3) "Adults" are persons aged 18 and over, "children" are those aged 17 or younger. Active households are those in which the householder is at least 18 but below 65 years of age.

4) Excludes household members whose equivalent disposable income is unknown.