Older Worker Employment in a 'Hyper-Aged' Japan: Five Main Characteristics

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https://doi.org/10.15017/4782093

出版情報：九州大学留学生センター紀要. 25, pp.11-24, 2017-03. 九州大学留学生センター
バージョン：
権利関係：

九州大学留学生センター紀要，2017，第25号，11－24
Res. Bull. International Student Center, Kyushu U.,
2017, No.25, 11-24

Older Worker Employment in a 'Hyper-Aged' Japan: Five Main Characteristics

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Abstract:

Against the backdrop of rapid population aging, most developed countries around the world are seeking ways to delay the retirement transition of older workers. Having been classified as a 'hyper-aged society' since 2007, today Japan stands as a precursory case of an aging country that may offer a source for policy lessons for other countries. This article aims to contribute to a body of policy literature on older worker employment and retirement by introducing main characteristics of the trends of older worker employment in Japan as a hyper-aged society. Relative to other developed countries, employment trends of older workers (aged 55-64) in Japan are characterized by (1) internationally high employment rates; (2) the high rates as a historical trend; (3) persistent gender gaps in employment; (4) an increase in non-regular employment; and (5) a large share of older workers who are referred to as 'working pensioners.'

I. Introduction: Japan as a 'Hyper-Aged Society'

In response to rapid population aging, most developed countries around the world are pressured to find ways to delay the retirement of older workers. Research suggests that delaying retirement would be beneficial at least at three levels. At the national level, if substantially more older workers were to remain in the labor force beyond conventional retirement ages, it would contribute to reducing the anticipated fiscal insolvencies of age-related social expenditures, including public pension schemes and health care for the aged (Hardy, 2006, 2011; Organization for Economic Co-Operation and Development, 2007, OECD, hereafter; Williamson, 2004). At the workplace level, delaying retirement would help employers retain some valued skills, knowledge, and social capitals in today's increasingly competitive global economy (Burtless, 2013; Flynn et al., 2014; Higo, Schröder & Yamada, 2016; Munnell & Sass, 2008). At the individual level, it would help increase financial security of older workers and their dependents once withdrawing from the workforce (Burtless, 2013; Williamson & Higo, 2009).

In this global content, arguably, Japan

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deserves international attention; today Japan leads the rest of the world in aging of the population and of the workforce. According to the United Nations (2016), as of 2015, about 8.3 percent of the world's total population was aged 65 and older. The corresponding figures for the whole of European countries (Europe, hereafter) and the United States (U.S., hereafter) were 17.6 and 14.8 percent, respectively. The figure for Japan was 26.3 percent, which was not only substantially higher than that for Europe and the U.S. but also the world's highest[1] (Higo & Klassen, 2016; United Nations, 2016). This figure for year 2015, 26.3 percent, is projected to continue rising to about 28.5 percent by 2020, to 30.4 percent by 2030, to 34.2 percent by 2040, and to 36.3 percent by 2050, levels that will be higher than in any other country (United Nations, 2016). Over the next decades, therefore, Japan will remain far ahead of the rest of the world on the aging curve of the population.

Since the mid-1970s, delaying retirement – that of corporate employees in particular – has increasingly risen as one of the country's main policy agenda (Higo & Klassen, 2015; Moriguchi & Ono, 2004). Reflecting this growing public concern, the Ministry of Health, Labor, and Welfare (MHLW, hereafter) has developed a conceptual scheme that classifies countries around the world into three stages of population aging. The first stage is 'aging society,' at which older people – defined as those aged 65 – account for at least seven percent of the total population, and the next, 'aged society,' for at least 14 percent. The last stage is 'hyper-aged society', at which older people account for at least 21 percent of the total population (MHLW, 2010).

According to this classification, Japan became an 'aging society' in 1970. Having experienced population aging much faster than most other developed countries, it grew to be an 'aged society' in 1994 and a 'hyper-aged society' in 2007 (Columus 2007, Higo & Klassen, 2016; MHLW 2014). Not only does Japan lead the world in population aging today; it also has experienced one of the world's fastest rates of population aging over the past decades (Higo & Klassen, 2016, 2015). Therefore, Japan's experience of contending with the challenges associated with delaying the retirement of its older workers offers a precursory case of an aging country, in its advanced stage of the demographic shift, that may offer a source for policy lessons today and in the future for other countries around the world, at various stages of population aging.

The remaining of this article outlines five main characteristics of the trends of older worker employment in a 'hyper-aged' Japan. Discussions delivered in this article are based mainly on two sets of sources: a review of relevant literature and findings from the latest, publicly available survey data drawn mainly from MHLW, OECD, and the United Nations. This article aims to contribute to the corpus of policy literature on retirement by introducing main uniqueness of the case of Japan from an international perspective. As its overarching goal, it also aims to offer a source for a cross-national comparative analysis of the trend

1 A quarter of Japan's total population has been aged 65 and older since September, 2013, according to the Ministry of Internal Affairs and Communications (2015).

of older worker retirement in the case of a 'hyper-aged' Japan with that of other countries for future policymaking.

II. Five Characteristics of Older Worker Employment in Japan

In what follows this article outlines five major characteristics of the trends of older worker employment in Japan with a specific focus on those aged 55 to 64, an age group that most countries around the world have targeted over the past decade for the purpose of delaying the timing of their retirement (Williamson & Higo, 2009). A brief discussion relevant to each of these characteristic is also delivered.

(1) Internationally high employment rates among older workers

The employment rate of older workers aged 55 to 64 in Japan, including both men and women, is high by international standards (OECD, 2016, 2004; Seike & Yamada, 2004; Williamson & Higo, 2009). **Figure 1** presents data of older worker employment rates for all 35 OECD member countries in 2015 (OECD, 2016).

In this year the employment rate for the OECD total was 58.1 percent, and the figure for Japan was substantially higher: 70.0 percent. Japan ranked sixth among all 35 OECD member countries, behind Iceland (84.5%), New Zealand (75.2%), Sweden (74.6%), Switzerland (72.8%), and Norway (72.2%). The figure for Japan was, nonetheless, significantly higher than that for the United States (61.5%), the United Kingdom (61.8%), and Germany (66.2%). This trend suggests that workers in Japan remain employed longer particularly when compared with other populous, developed countries with large-sized economies.

To date, research has suggested several factors that may contribute to the high employment rate of older workers in Japan. Seike and Yamada (2004) argue that in general workers in Japan have strong economic incentives to remain economically active as long as possible due mainly to the modest provisions of the public pension scheme. In Japan, while public pension benefits are one of the main financial resources for many older adults in retirement, the replacement rates of the public pension are very low – in both gross and net replacement rates, the third lowest among OECD countries only after Chile and the United Kingdom (Higo, 2013; OECD, 2004; Williamson & Higo, 2009). Income from work is therefore an important part of the financial resources for older people in Japan (Seike and Yamada (2004). This economic factor has generated a number of what is referred to as working pensioners, who remain employed out of economic necessities while receiving at least part of the public pension benefits (Casey, 2004; Horioka, Suzuki & Hatta, 2007; Yamada & Higo, 2011).

Higo and Klassen (2013) emphasize the role of the national government in response to the unprecedented demographic pressure that the country has been facing over the past decades. Due partly to the rapid decline in the childbirth rate, Japan has been experiencing not only the rapid population aging but also a shrinking of the size of the population and of the workforce (Higo

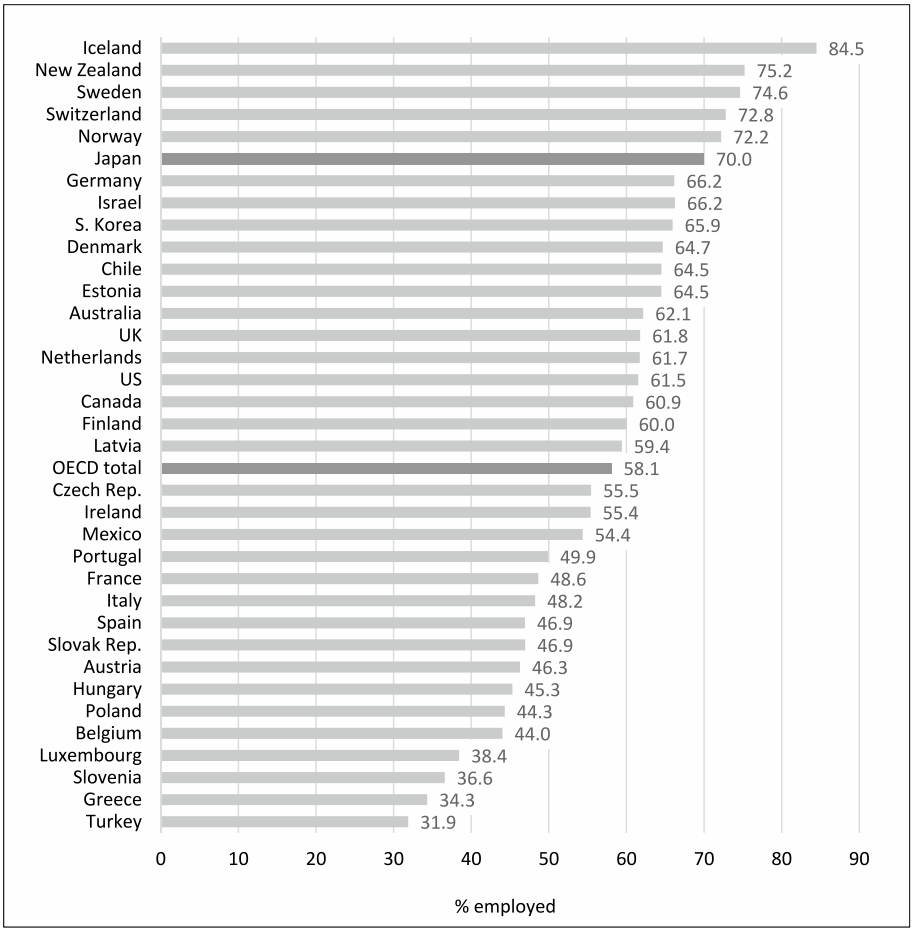


Figure 1. Employment rates, age group 55-64, total (men and women), by country, 2015 (%)

& Klassen, 2016; Yamada & Higo, 2015). Under this demographic pressure, the government has rendered it a de facto top national priority to prolong the working lives of older adults as a way to help maintain the country's economic vitality in the midst of the increasingly competitive global economy (Higo, 2013; Higo, Schröder & Yamada, 2016; Williamson & Higo, 2009).

Furthermore, Bass (1996) discusses the importance of the role of the Japanese national cultural value placed on work, employment, and corporate memberships as a main source of positive self-esteem and purpose of life at large. In addition to economic reasons, older adults in Japan, current male older workers in particular, have strong intrinsic reasons to continue working as long as their health and other factors permit (Bass, 2014; England & Misumi, 1986; Karasawa et al., 2011; Shirai, et al. 2006).

(2) High older worker employment rates as a historical trend

The tendency that the older worker employment rate in Japan is high relative to many other industrial countries is not only a contemporary trend; it is historical. Figure 2 presents data of trends of older worker employment rates, including both men and women, for Japan, Europe, and the U.S. from 1972 through 2015. Roughly over the past four decades, as in **Figure 2**, the employment rate for Japan has been constantly over 60 percent and has constantly been higher than for Europe and the U.S. It is also worth noting that, as in Figure 2, while the employment rates both for Europe and the U.S. had once started to gradually drop since the early 1970s, Japan does not seem to share a similar historical tendency.

As Ebbinghaus (2001), Taylor and Earl (2016), and Walker (2000) argue, the modern history of retirement as a social institution in Western Europe and, to lesser extent, in the U.S. is characterized by the government-condoned routes for early exit from the workforce that has increasingly been prevalent roughly from the early 1970s through the 1980s. During the periods of economic downturn and mass unemployment, the governments in those countries took the lead for creating early retirement routes – various forms of early retirement incentives that aimed to encourage older workers to withdraw from the workforce earlier than the conventional pensionable ages (Klassen, 2013; Schils, 2005).

These routes were promoted and created based on an assumption that encouraging early retirement of older workers would help reduce the rapidly rising number of unemployed youth.

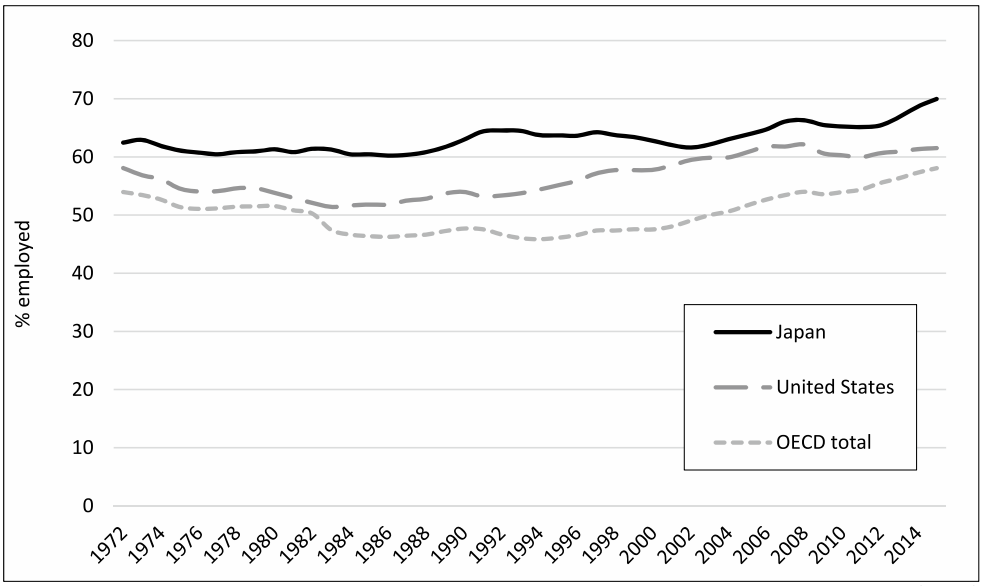


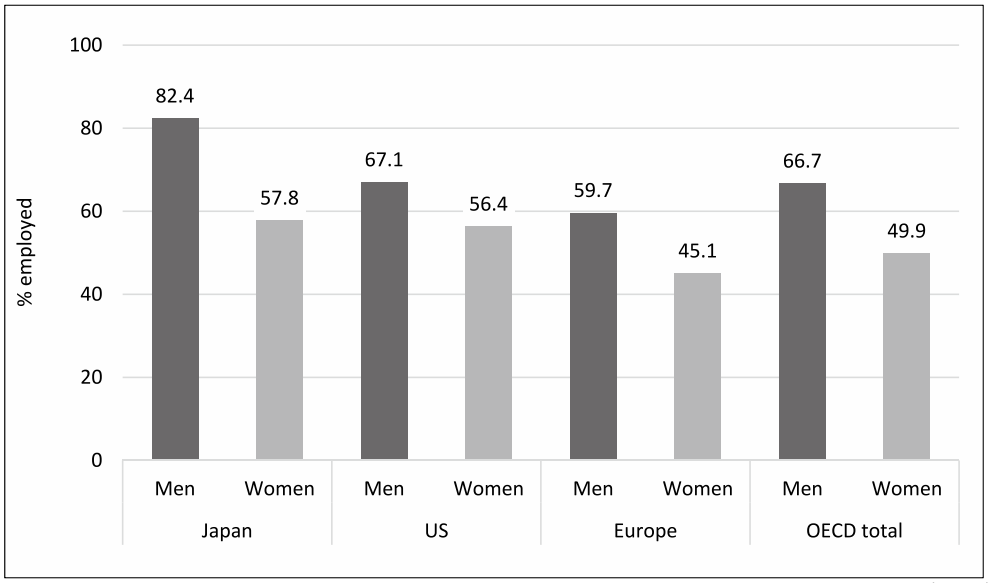
Figure 2. Trend of employment rates, age group 55-64, total (men and women), by country, 1972-2015 (%)

While effectively inducing a large number of older workers to retirement, however, these government-initiated early retirement incentives had largely failed to achieve their primary policy objective: reducing youth unemployment (Costa, 1998; De Vroom, 2004; Klassen, 2013). Rather than following this path, policymakers in Japan have learned lessons from these unsuccessful attempts overseas; having projected a rapid shrinking of the country's workforce, it has never been a sound policy option for the Japanese government to encourage labor force exit of any age group (Higo, 2013; OECD, 2004; Ono, 2007; Seike & Yamada, 2004). Unlike the case of Europe and the U.S., therefore, in Japan a history of early retirement incentives, at a government-level, is substantially absent (Flynn et al., 2014; Oshio, Shimizutani & Oishi, 2010; Yamada & Higo, 2015).

(3) Persistent gender gaps in employment rates

Across countries around the world, employment rates are higher for men than for women including those of older workers. Over the past decades, most developed countries, including those in Europe, the U.S., and Japan, have been closing the gender gaps at different timings and speed and through varying measures (International Labor Organization, 2016; Banerjee, 2013; Hardy, 2006).

As a third characteristic, however, relative to other developed countries, the gender gap in Japan has still remained significantly more persistent event to date. **Figure 3** presents data of employment rates of older workers by gender in Japan, the U.S., Europe, and a total of all 35 OECD countries. In Japan the employment rate was 82.4 percent and 57.8 percent for men and



Source: OECD (2016)

Figure 3. Employment rates, age group 55-64, by country and gender, 2015 (%)

women, respectively – the gender gap was 24.9 percent. This figure is substantially higher than that in the U.S., Europe, and the OECD total. As in Figure 3, in the U.S., the employment rate was 67.1 percent and 56.4 percent for men and women, respectively; the gender gap was 10.7 percent. In Europe, as the employment rate was 59.7 percent and 45.1 percent for men and women, respectively; the gender gap was 14.6 percent.

In all 35 OECD countries, the gender gap was 16.8 percent as the employment rate was 66.7 percent for men and 49.9 percent for women (OECD, 2016).

One of the major contributors to the wide gender gap in Japan is the institution of lifetime employment, which has characterized Japan's labor market throughout the country's post-war history (Gordon, 1998; Higo & Klassen, 2015; Higo, 2013; Ono, 2007). Under this institution, typically workers are hired immediately after completion of their schooling and stay with the same employers, or within the employers' organizational or business networks, until retirement. Employees of organizations under the lifetime employment institution are, in a general term, assured of long-term, secure employment, and regular wage increases through seniority-based wage increase systems (Dore, 2004; Gordon, 1998). Simultaneously, employers are assured of a stable labor supply and long hours of work due to the long-term corporate loyalty of their employees (Ono, 2007). In Japan, lifetime employment as such was solidly institutionalized across most industrial sectors, in both public and private employment, and for many occupations during the times of the postwar reconstruction (Mouer & Kawanishi, 2005).

Brinton (1994) and Ogoshi (2006) argues that lifetime employment as institutionalized in Japan's labor market is characteristically male-centered by nature. The core workforce of the lifetime employment institution consists mainly of regular employees – those employed on full-time and presumably permanent contract bases, and most of those employees are male (Ogoshi 2006). Historically, by contrast female workers have largely been excluded from this institution (Abe, 2011; Brinton, 1994). Over roughly the last two decades, the scale of the lifetime employment institution in Japan's labor market has steadily been in decline. This is mainly because older workers have been rendered too costly for most employers to retain as they search for greater efficiency in management of human resources in the wake of recovery from the economic recession since the early 1990s (Higo & Klassen, 2013). Residues of this highly gendered labor market institution have, nonetheless, still been visible in many industries and organizations in Japan's workforce today, which have contributed to the persistent, wide gender gap in the country (Ono, 2007).

In the global trend toward closing the gender gap in employment, Japan lags behind many other developed countries around the world. Japanese women have the world's longest life expectancies at birth and the longest number of years free from disability (Williamson & Higo, 2009). Therefore, if the government aims to delay the retirement of older workers as a way to increase the aggregate hours of labor that they supply, it is imperative for the country to follow the successful approaches of

those countries in Western Europe and North America in particular.

(4) An increase in non-regular employment among older workers

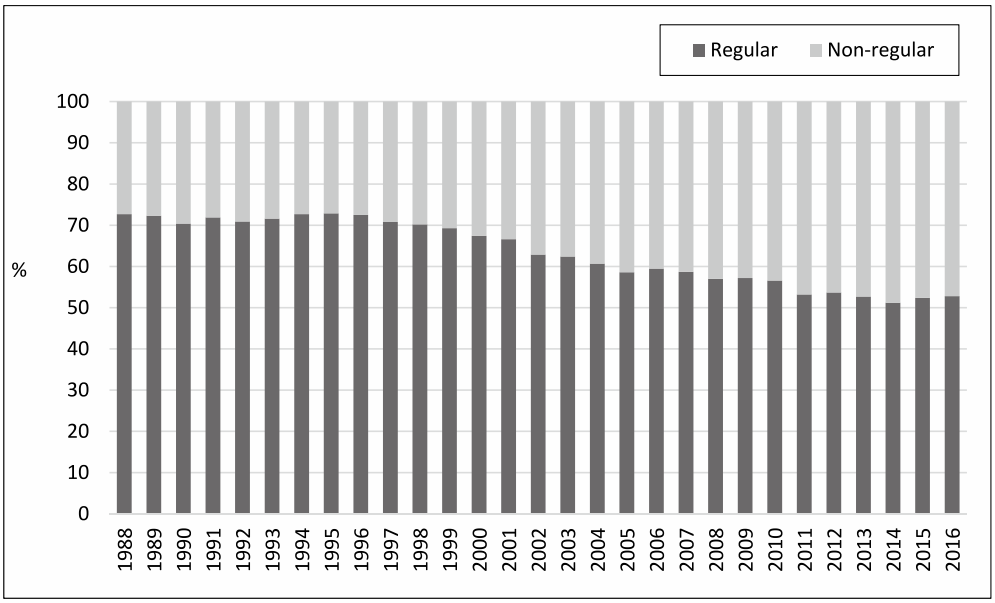
Roughly over the past two decades, the share of older workers in Japan who are non-regular employees has steadily been increasing. As opposed to regular employees, non-regular employees in this context refers to those employed on a part-time, temporary, or a combination of both basis (OECD, 2007). These workers are typically outside the institutional framework of the aforementioned lifetime employment (Higo & Klassen, 2016; OECD, 2004; Yamada & Higo, 2015). **Figure 4** presents data of the trend of the share of older workers who are non-regular employees from 1988 to 2016.[2] As in Figure 4, the shares have steadily increased, and this is the case for both men and women.

As mentioned earlier, the lifetime employment institution in Japan has steadily been downsizing over the past few decades (Yamada & Higo, 2011). This trend has emerged in parallel to a sharp rise in the number of non-regular employees in the workforce. In Japan, conventionally, married women have been overrepresented in the non-regular workforce (Japan Institute of Labor Policy and Training, 2008). The interplay between employers' persistent use of corporate mandatory retirement policies on the one hand and the national government's effort to prolong the working lives of older adults on the other has contributed to the steady increase of the share of older men as well as women who are non-regular employees (Higo & Klassen, 2013, 2015; Yamada & Higo, 2015).

The most significant factors behind the raise of non-regular employees among older workers rest in the last two major amendments to the Law for the Stabilization of Employment of Older Persons (LSEOP, hereafter) made in 2004 and 2012 (Higo & Klassen, 2015). Originally legislated in 1971, LSEOP has been the central legislative framework through which the national government has intervened into the labor market in order to increase the mandatory corporate retirement ages set by employers. Behind the series of amendments of LSEOP is the urge to mitigate the anticipated financial strain on the public pension system. The primary goal of the 2004 and 2012 amendments of LSEOP is specifically to promote the continued work beyond age 60 (Yamada & Higo, 2011, 2015; Williamson & Higo, 2007, 2009).

The 2004 amendment of LSEOP (enacted April 1, 2006) required that employers comply with one of the following three options at the latest by April 2013: (1) fully abolish mandatory retirement rules in the workplace; (2) set the minimum age for mandatory retirement at 65 or above; or (3) adopting employment policies aiming to retain employees until at least age 65. To comply with this requirement, the majority of employers chose the third option instead of the first two – even by 2012, about 92.1 percent of employers elected the third option. In this option, employers were required to introduce prolonged

2 Data from 1998 through 2001 were of every February. Those from 2002 on were an average of the months of January, February, and March (Statistic Bureau, Ministry of Internal Affairs and Communications, 2016).



Source: Statistic Bureau, Ministry of Internal Affairs and Communications (2016)

Figure 4. Trend of the share of employment status (regular vs. non-regular), age group 55-64, 1988-2016 (%)

employment policies, rehiring policies, or both. The prolonged employment policy refers to allowing workers to remain employed beyond the mandatory retirement age at least until age 65. Contrary to this, rehiring policies refer to the termination of the regular employment contract once employees reach their organization's mandatory retirement age. Upon the termination of the regular employment contract, employees are re-hired, though under different, often non-regular, employment conditions. The majority of employers who chose the third option – about 71.6 percent in 2012 – only introduced rehiring policies (MHLW, 2014).

Overall the 2004 amendment of LSEOP was not effective in promoting continued employment of older workers beyond the mandatory retirement age (typically age 60). This was largely the case because employers were not necessarily obliged to offer continued employment opportunities to all who wished to continue to work; they were able to select employees if the criteria for selection were agreed by Employer-Employee Agreements (EEAs). As of 2012, about 75.4 percent of all workers who had reached their mandatory retirement ages reported that they desired continued employment at their workplace. According to a recent survey conducted by MHLW, only 47.9 percent of those workers were allowed to work until age 65. All these measures were intended to provide employment opportunities to those who were able and willing to work until they reach the pension eligibility age of 65, while providing flexibility for firms to make arrangements suited to individual business circumstances (Flynn, et al., 2014).

The 2004 amendment of LSEOP as such has

played a role in generating non-regular workers in the country's workforce (Yamada & Higo, 2015). While employers are by law required to at least re-hire their employees who have passed the organization's mandatory retirement age, these employers have received a considerable degree of discretion over employment terms for this group of re-hired employees. Under the current law, the government affirms that, in exchange for retaining employees beyond conventional mandatory retirement age, employers may change those employees' wages, employment status, work schedule, job contents, and even workplace. Employees might therefore be transferred within employers' business networks. In order to change terms of employment, typically employers once terminate employment and then re-hire them in temporary or part-time positions with significantly reduced wages and benefits (Ono, 2007), thereby shifting their status from 'regular employees' (the core workforce) to 'non-regular employees' (the peripheral workforce) (Higo 2006).

The latest partial amendment of LSEOP in 2012 (enacted April 1, 2013) has mandated, in part to address this issue, that employers retain at least until age 65 all of their employees who have reached their mandatory retirement age and wish to be continually employed. In this arrangement, importantly, all employees need to be retained if they wish to work until age 65. Employers are no longer allowed to select employees to whom they offer continued or re-employment. One idea behind the 2012 partial amendment of LSEOP is to require that all employers simply raise the mandatory retirement age at least up to age 65 if not abolishing the mandatory retirement policy altogether.

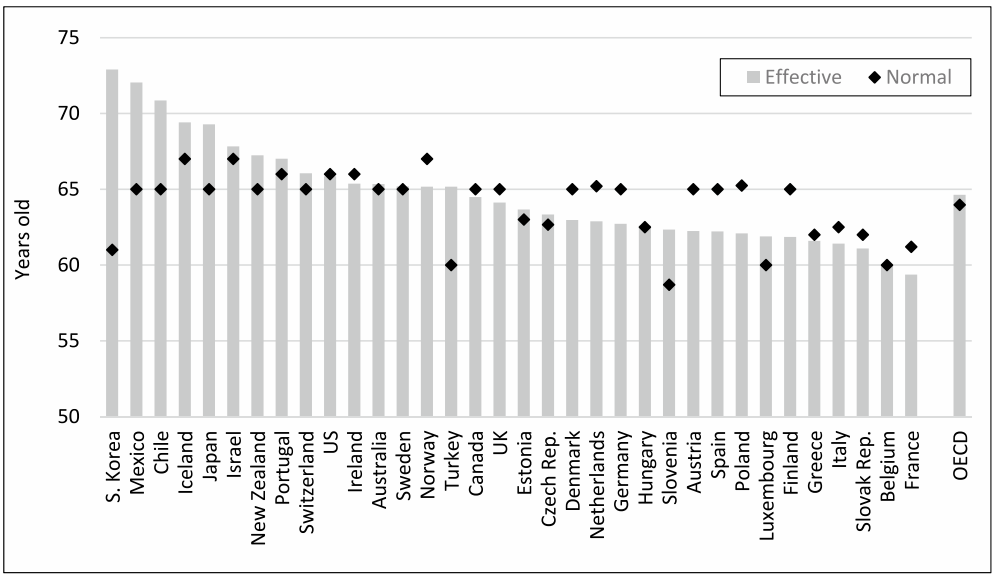
To the government's and workers' concern, such employer reluctance has generated considerable risks associated with financial security among older individuals, particularly among those aged 60 to 65. The government, however, still acknowledges the mounting pressure affecting many employers to reduce human resource costs in order to maintain organizational competitiveness in today's national and global economic downturn (Yamada & Higo, 2011, 2015; Higo & Yamada, 2009).

(5) A surpass of effective retirement age over the pensionable age

As a logical consequence of the high employment rate of older workers, both men and, to some extent, women, the effective retirement age of workers in Japan[3] is high by international standards as well. According to OECD data averaging the effective retirement age over a five-year period between 2009 and 2014, Japanese men retired on average at age 69.3 and women at age 67.6, which means 4.3 and 2.6 years, respectively, after being able to first draw their public pension benefits (OECD, 2015). **Figure 5** shows the effective versus the normal[4] retirement age in Japan as well as

3 OECD (2015) defines the effective age of retirement as the average age of exit from the labor force during a 5-year period. Labor force exits are estimated by taking the difference in the participation rate for each 5-year age group (40 and over) at the beginning of the period and the rate for the corresponding age group aged 5-years older at the end of the period.

4 The normal retirement age refers to the age at which an individual can retire in 2014 without any reduction to their pension having had a full career from age 20 (OECD, 2015).



Source: OECD (2015)

Figure 5. Effective vs. normal retirement ages, men, 2009-2014 (average), by country (years old)

in all the other OECD member countries. By international standards, as in Figure 5, Japan ranks very high with regard to male average retirement age, only after Mexico, Korea and Chile. The same holds true for women, where Japan ranks fifth after South Korea, Meio, Chile, and Iceland. It's worth noting that the effective retirement age of Japan stands in contrast with other OECD countries, such as Norway, Luxemburg, Germany, and France, where the effective retirement is significantly below the normal retirement age and where men transition into retirement on average prior to their 60s birthday.

A possible explanation for the late work-retirement transition among workers in Japan might rest in the aforementioned economic necessity to work while already drawing the public pension benefits. Personal wealth and pension income significantly influence retirement timing, and those that do not have sufficient funds to maintain their standard of living are likely to remain in the labor force (Munnell & Sass, 2008; Williamson & Higo, 2009). As mentioned earlier, this relatively large group is known as *working pensioners*, a concept that has been fostered by the Japanese government since 1965 to allow individuals to meet their financial needs (Yamada & Higo, 2011). It is likely that the group of *working pensioners* is composed mainly of low educated individuals and those with interrupted employment histories, including women, who have, due to low wages, a lack of contribution years, or a combination of both factors, accumulated insufficient pension entitlements (Flynn et al, 2014). Low educated individuals in low paying professions might likewise not have been able to acquire private pension funds to supplement their public pension. Based on this assessment, arguably, there is a large standard

deviation when investigating the retirement timing of high skilled and low skilled individuals, at least when only considering financial need to remain in work (Higo, Schröder & Yamada, 2016; Shimizutani, 2011; Shimizutani & Oshio, 2012).

III. Conclusion

This article began by arguing that Japan's experience deserves greater international attention when looking at the global trend of rapid population aging and of delaying the retirement of older workers. This is not only Japan became a 'hyper-aged' society before all other countries, but also because Japan has kept workers, men in particular, in the labor force longer than most other major countries around the world. Does this mean that Japan may represent a successful model for other countries to follow in their current and future efforts to delay retirement in their own rapidly aging workforces?

This article has outlined five main characteristics of the trends of older worker employment in a 'hyper-aged' Japan, which aimed in part to help explain why workers in Japan remain in the labor force so long as they do. This article has clarified that employment rates among older workers (aged 55-64) are higher for Japan than for most other developed countries around the world today, and that this trend is historical. Another characteristic rests in its persistent gender gap in employment including that of older workers. Due in part to the recent policy interventions that the national government has done, non-regular employment has increasingly been prevalent among older workers as well. Finally, as indicated by the substantial gap between the effective and normal retirement ages, a significant number of working pensioners have contributed to the high employment rates among older workers in Japan. In the midst of the global trend of population aging, as this article suggests, Japan has contended with various challenges in further delaying the future retirement of its older workers – that of corporate employees in particular. Overall, this article concludes by arguing that the experience of Japan deserves close attention from other countries, not only to follow some aspects of the recent approaches to addressing this issue, but also to draw some negative lessons for their future policymaking.

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