

European Economic and Social Committee Employers' Group
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Europe and Japan*
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Employment Policies for Older Workers and Labor Demand in Japan

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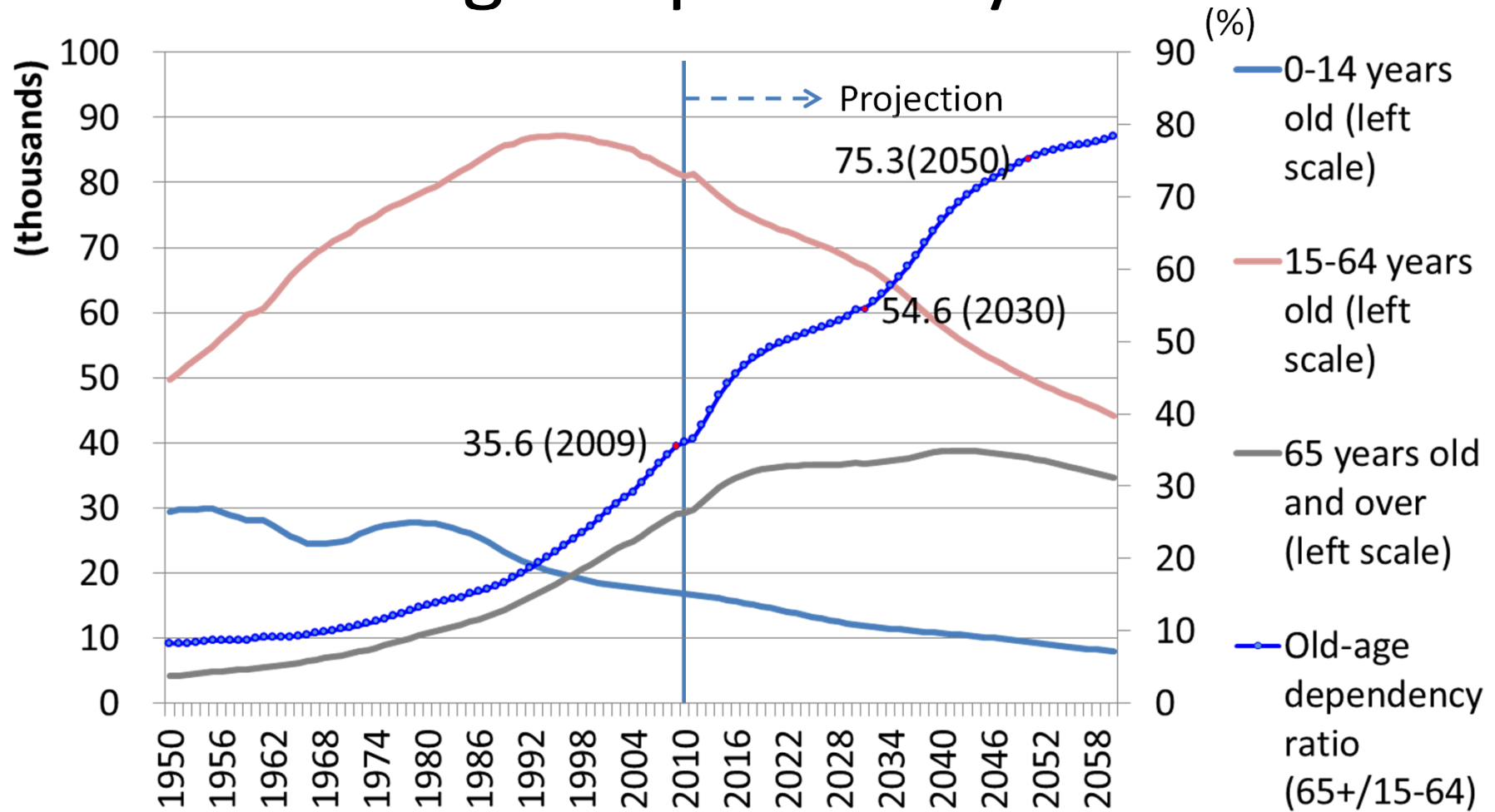
Outline of the presentation

- Ageing of the Population and Decreasing Number of Workers
- Labor Supply of Older Workers
- Employment Policies for Older Workers
- The 2004 Revision of the Employment Stability Law for Older Workers
- Theoretical Background
- Current Debates
- Concluding Remarks

Ageing of the Population and Decreasing Number of Workers

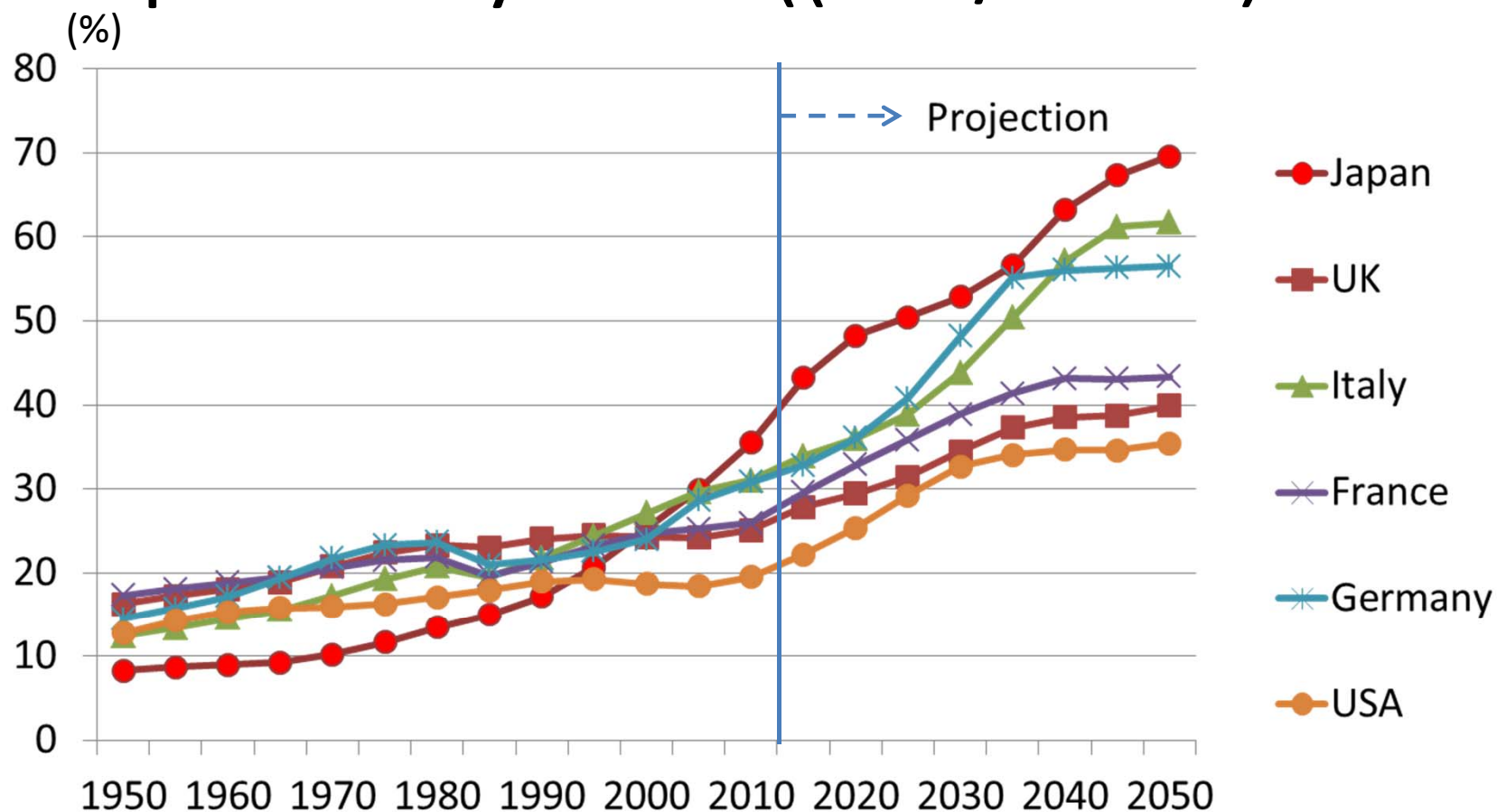
- In Japan, ageing of the population is rapid mainly due to the low fertility rate. Consequently, the old-age dependency ratio (65+/15-64 years old) is rising rapidly from 0.36 in 2010 to 0.56 in 2030 and to 0.75 in 2050.
- It is projected that the labor force population would fall by 10 million from 2006 to 2030, if the labor force participation rate is constant for each demographic group.

Population Projection and Old-age Dependency Ratio



Source: The National Institute of Population and Social Security Research, Population Projection (2012)

International Comparison of Old Age Dependency Ratio $((65+/15-64) \times 100)$

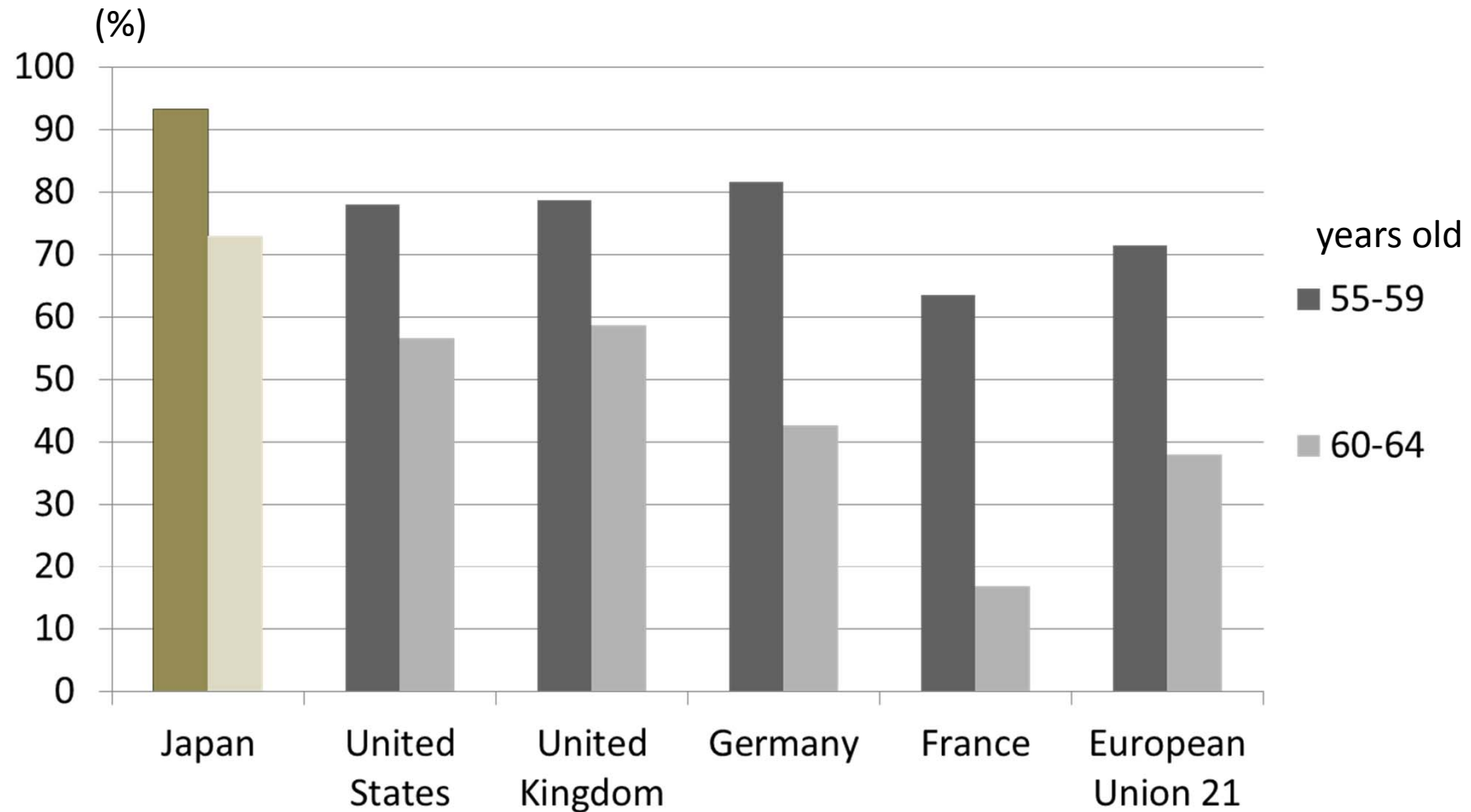


Source: United Nations, *Population Projection 2010*

The labor force participation rate of older workers

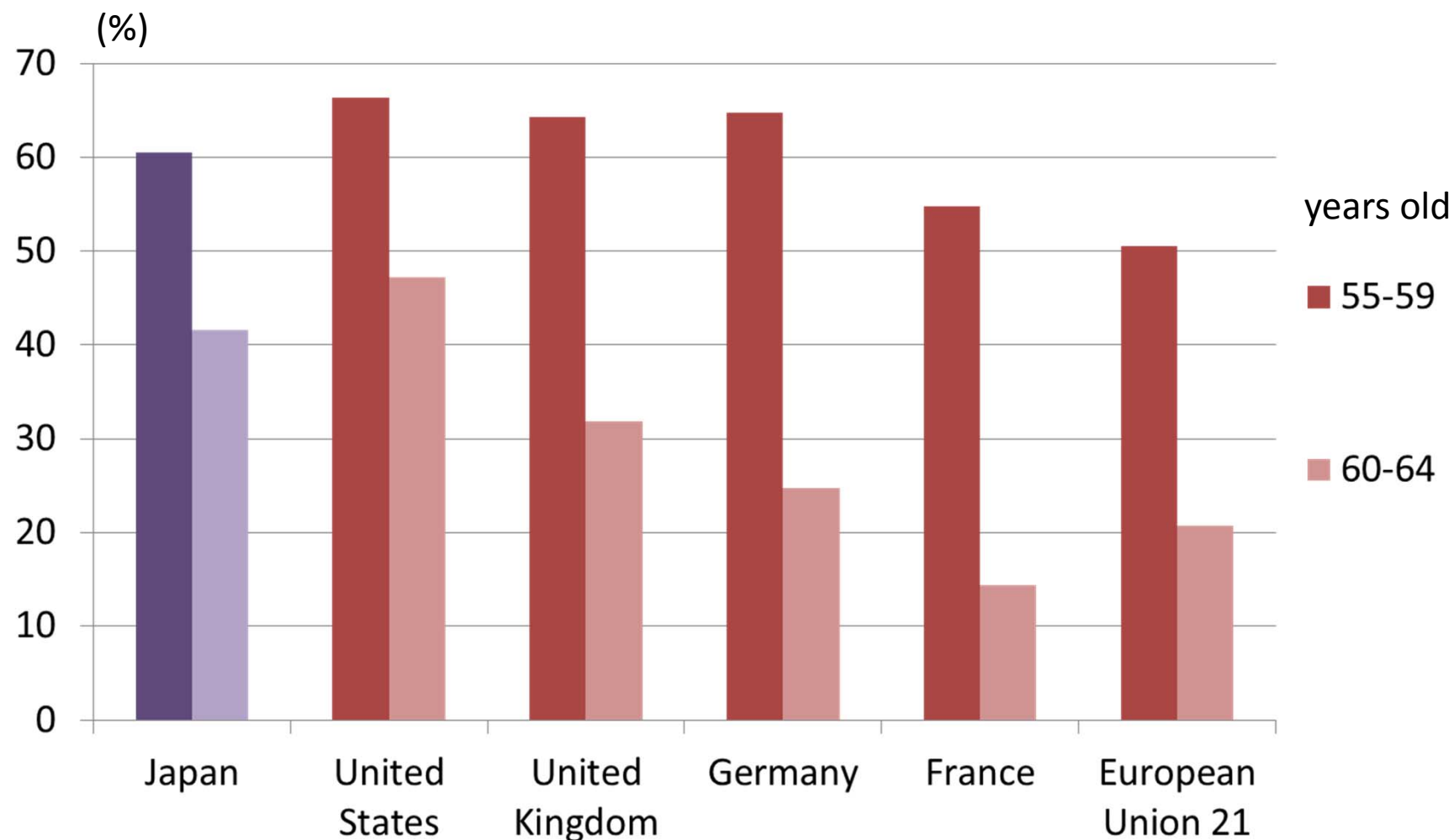
- The labor force participation rates of older workers in Japan tend to be higher than in other OECD countries.
- This may be partly due to the relatively modest average replacement rate of public pension. But Japan is still an outlier even after taking the effect of pension into account or compared with other OECD countries with the same or lower replacement rates.
- Thus, the issue is how to promote the labor demand for older workers, especially after the mandatory retirement age.

Labor Force Participation Rate of Older Workers (Men, av. 2001-2010)



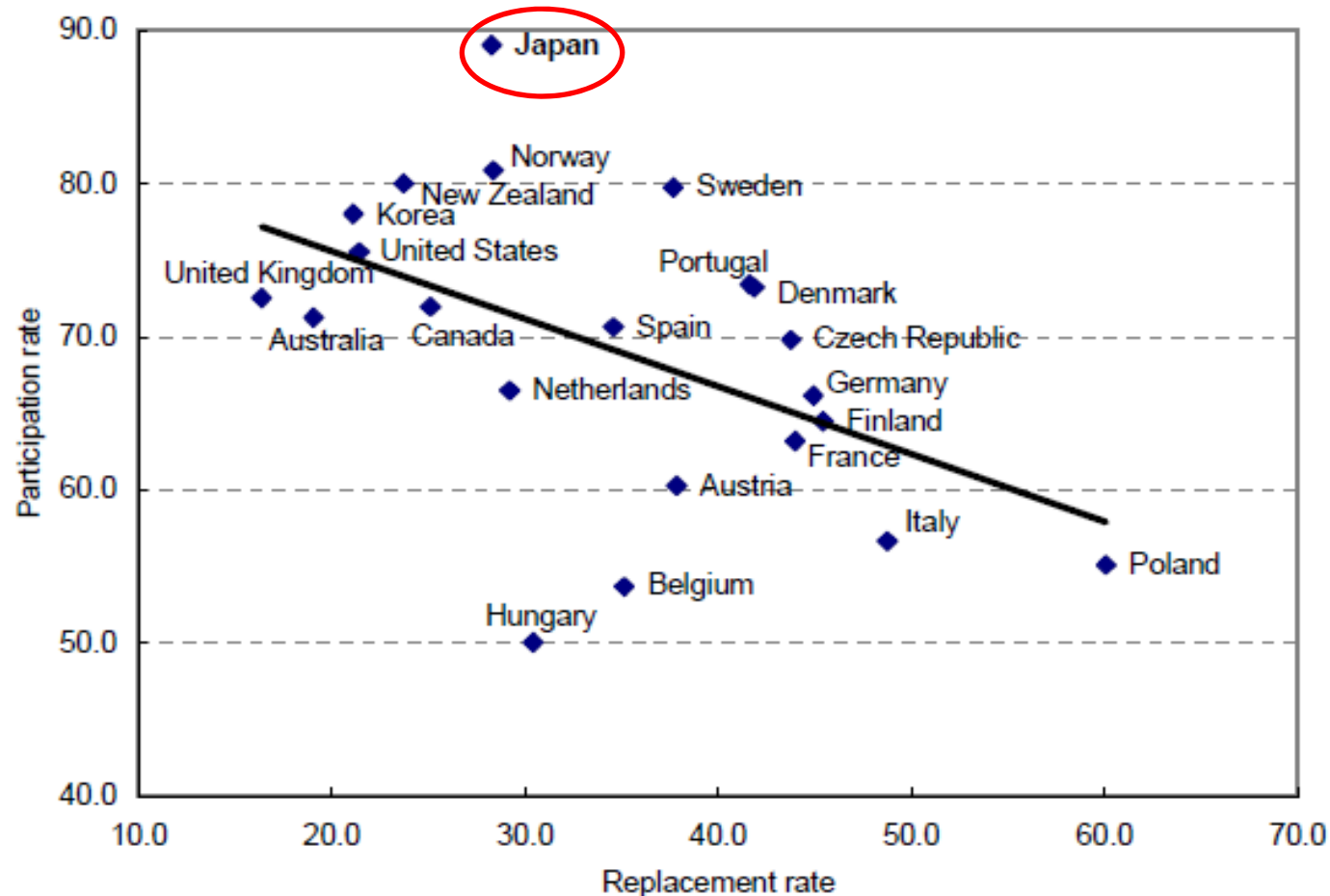
Source: OECD

Labor Force Participation Rate of Older Workers (Women, av. 2001-2010)



Source: OECD

Replacement rates and participation rates for older men in OECD countries, 2000a *percentages*



The replacement rate refers to the GDP share of total public expenditures on old-age pensions and other early retirement benefits divided by the old age-dependency ratio. The participation rate is calculated for men aged 50-64.

Source: OECD (2004), *Ageing and Employment Policies Japan*

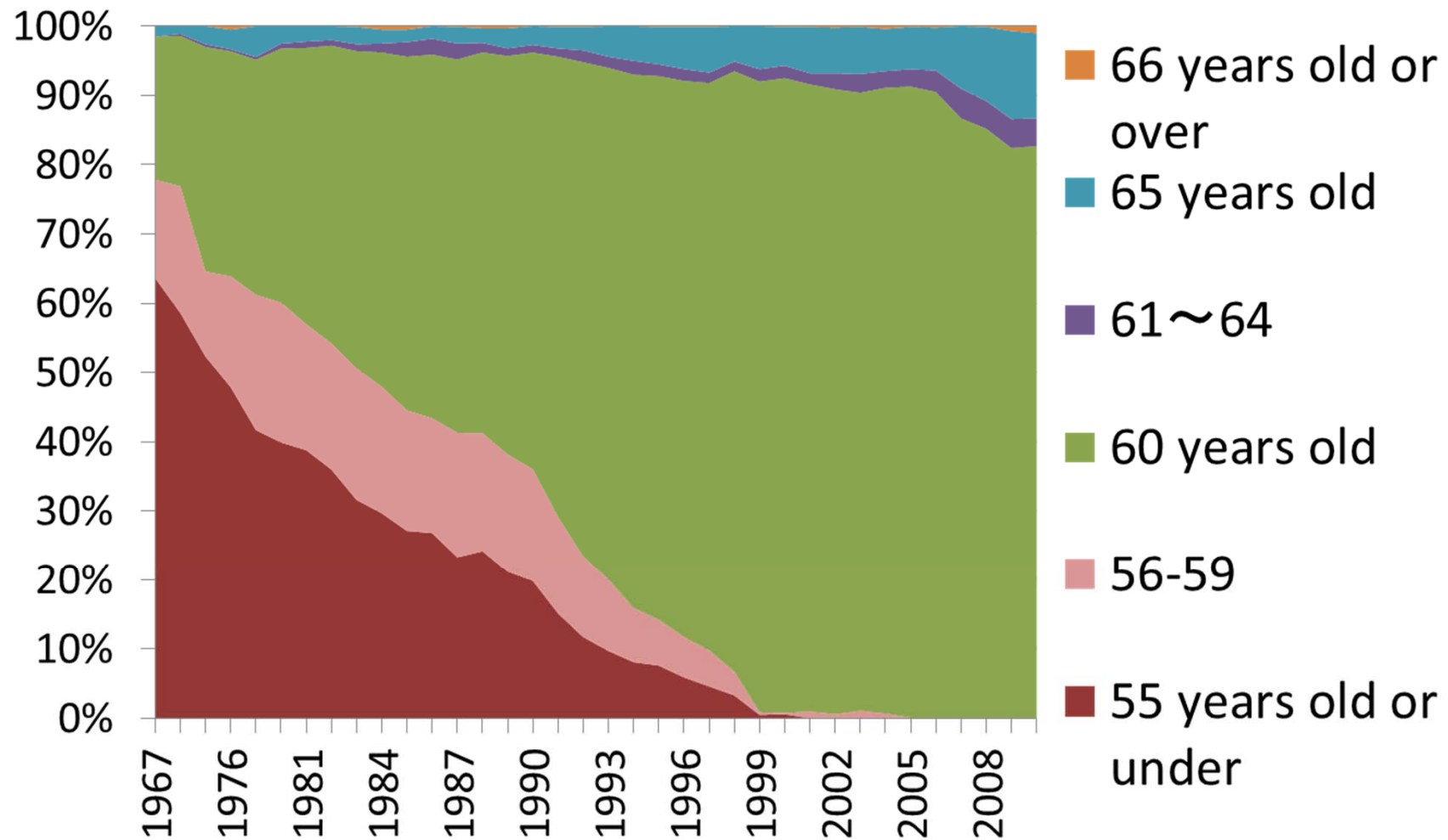
Employment Policies for Older Workers

- Japan has **not adopted early retirement policies**, which many European countries adopted to alleviate youth unemployment in the 1980's.
- On the contrary, Japan has made efforts to promote employment for older workers by encouraging employers **to retain older workers longer**, through the **extension of mandatory retirement age** and/or the promotion of **continuous employment** after mandatory retirement age.

Historical Developments of Employment Policies for Older Workers in Japan

- 1976 A [statutory employment rate](#) (6%) for older workers (older than 55) was established and firms in the private sector were obliged to make efforts to attain it. This policy was not successful.
- 1986 Firms were obliged to [make efforts to raise the mandatory retirement age to 60 years old or over](#).
- 1994 Firms were [obliged to raise the mandatory retirement age to 60 years old or over](#) by the revision of the Elderly Employment Stabilization Law.
- 2000 Firms were obliged to [make efforts to introduce measures to ensure elderly employment up to 65 years old](#), by raising the mandatory retirement age etc..
- 2004 Firms were [obliged to introduce measures to ensure elderly employment up to 65 years old](#), by raising the mandatory retirement age or abolishing it or introducing continued employment system.

Long-term Trends in the Distribution of Firms by Mandatory Retirement Age

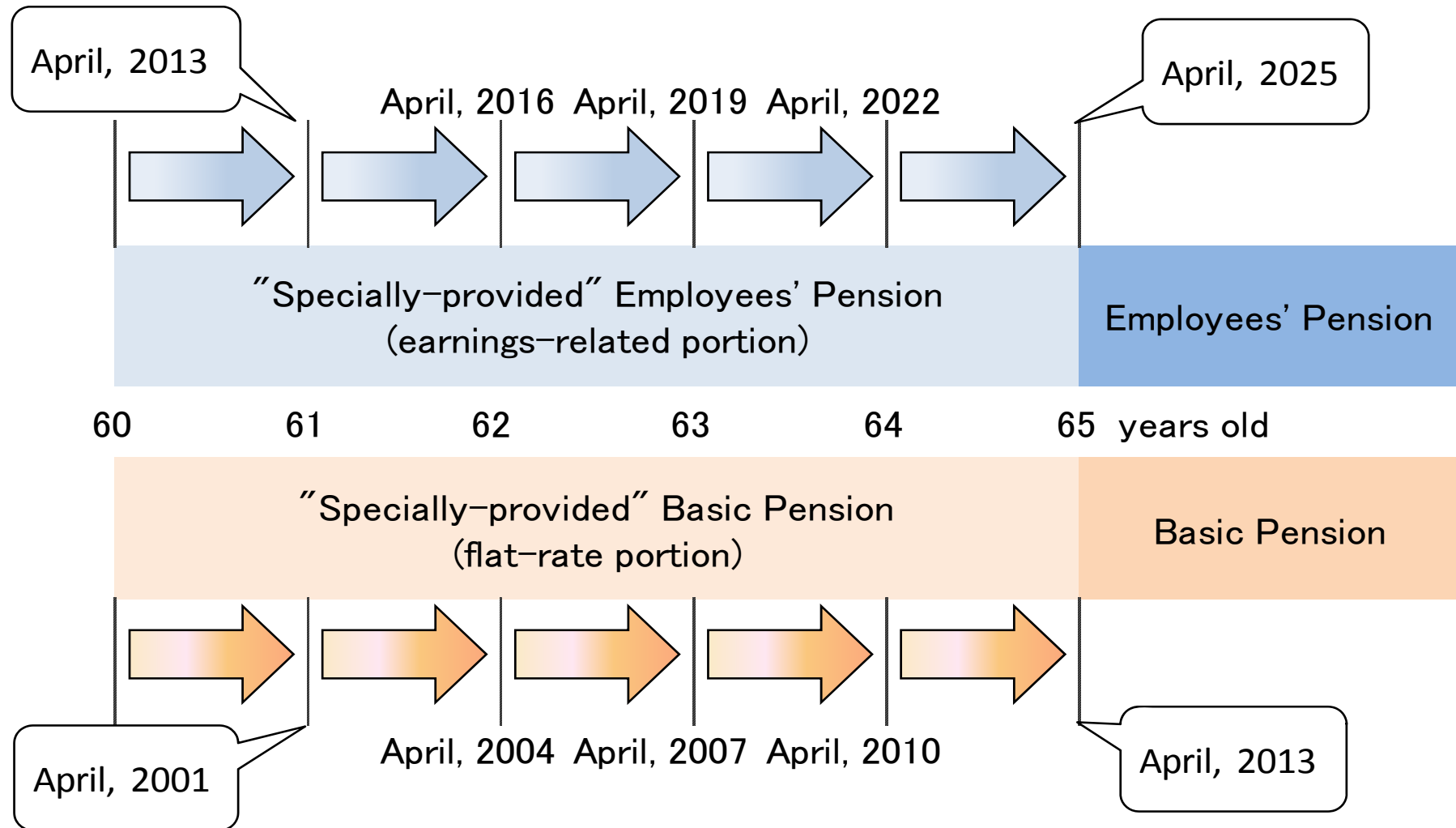


Source: MHLW, Survey on Labor Management (-2004),
Survey on Employment Conditions (2005-)

The Reform of Public Pension in 2000

- From age 65 onwards, retired employees are entitled to both Basic Pension (flat-rate portion) and Employees Pension (earnings-related portion). However, employees aged 60-64 have been able to receive the “specially-provided” EP benefit, which is *de facto* equivalent of the benefits for those aged 65 or over.
- The rapid aging of the population prompted the government to phase out the “specially-provided” old age pension and to raise gradually the effective pensionable age from 60 to 65 years old by April, 2025.

Schedule of the Raise of the Pensionable Age of Public Pension



Note: For female workers, the pensionable age is raised 5 years later.

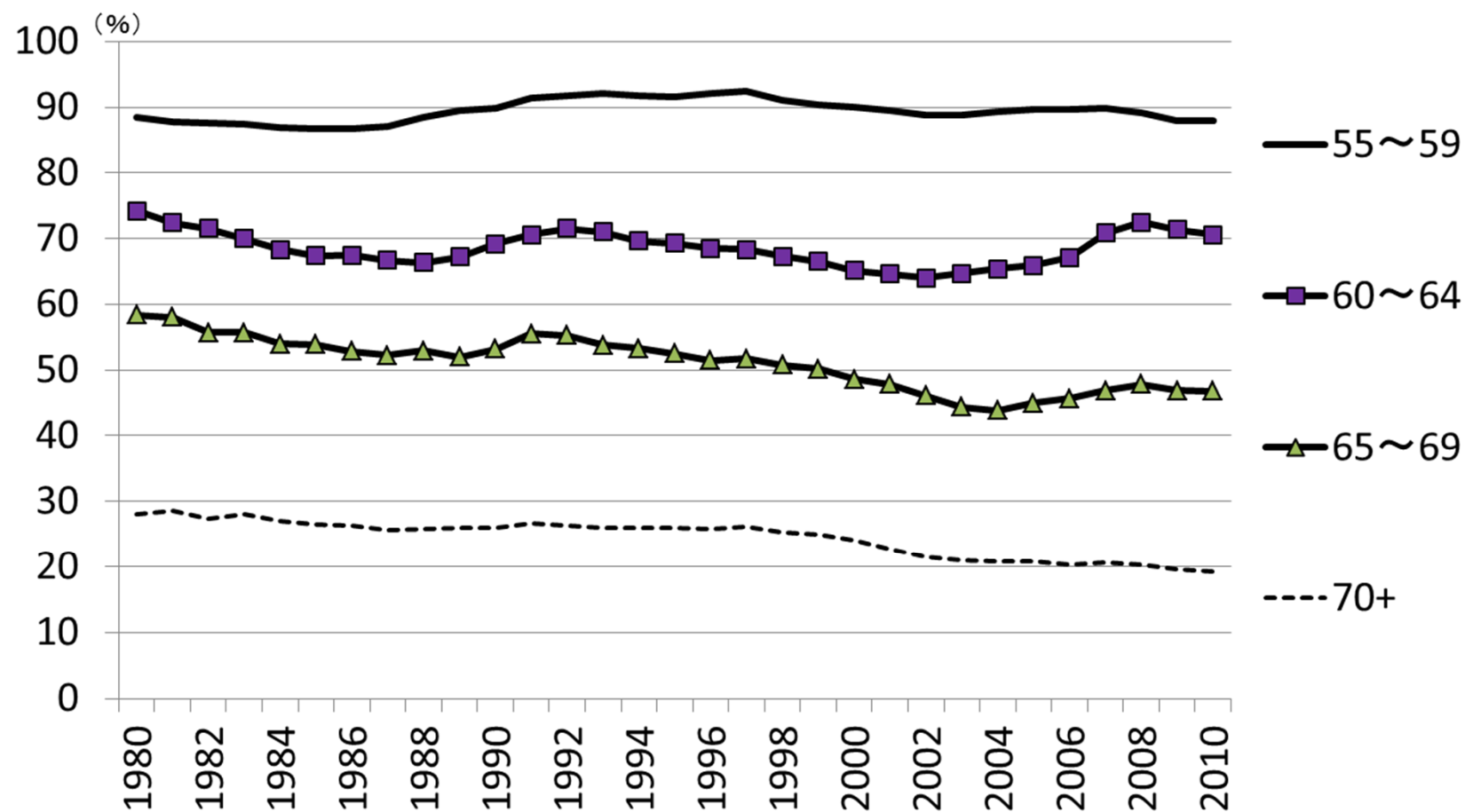
Law Concerning Stabilization of Employment of Older Persons Revised in 2004

- Employers stipulating the mandatory retirement age (limited to that under 65) must apply either of the following measures (**measures to ensure elderly employment**) to secure the stable employment of their employees until they reach 65 years old:
 - (a) Raising the **mandatory retirement age**
 - (b) Introduction of a **continued employment**
 - (c) **Abolition** of the mandatory retirement system
- However, employers are considered to take the measure of (b) when they provide **a standard** for older people subject to (b) by labor and management agreement or by working rules and introduce the system under such standard.

Consequences of the revision of the Law Concerning Stabilization of Employment of Older Persons in 2004

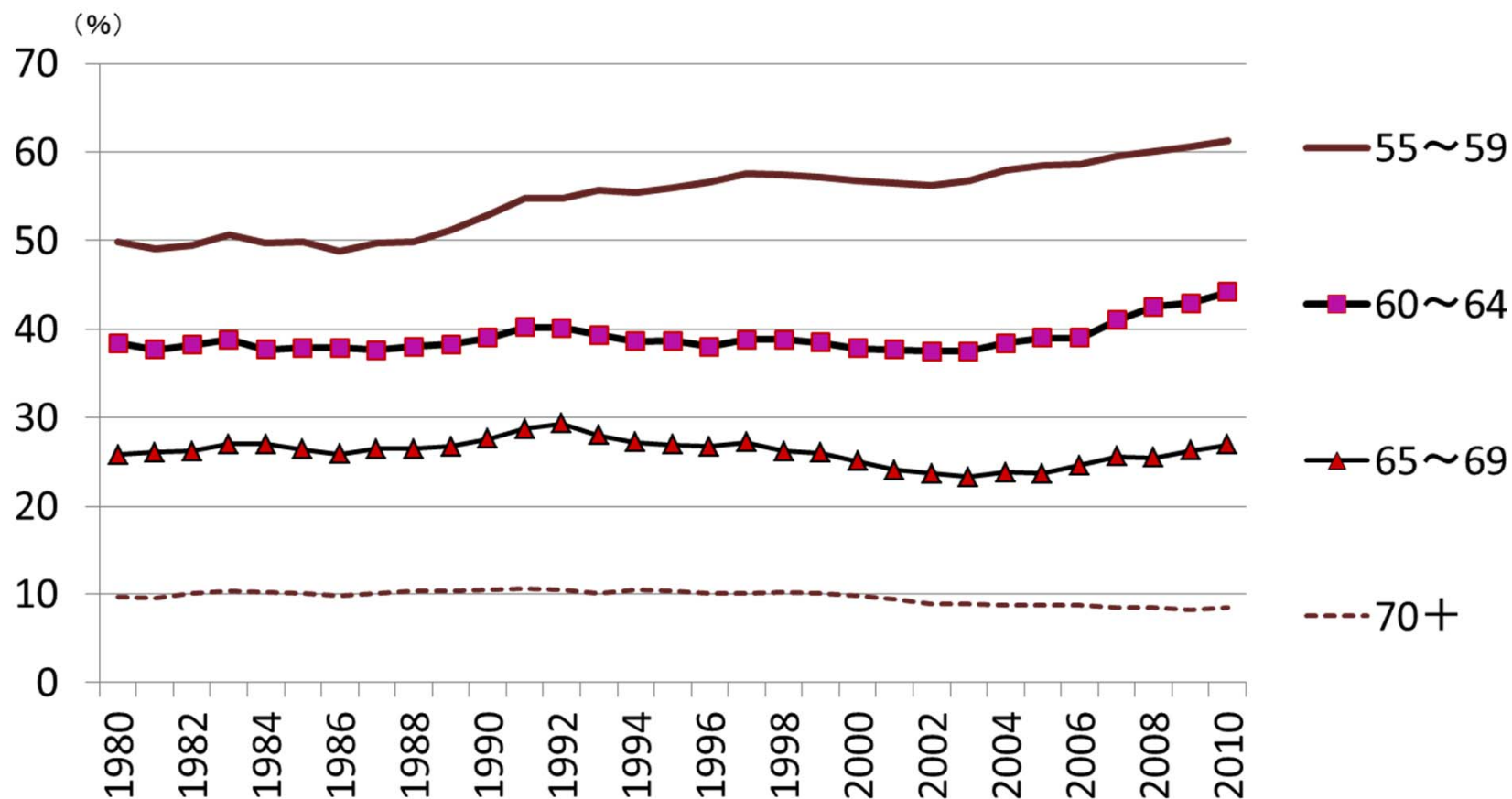
- Labor demand for older workers has boosted as shown by the **sharp rise in employment population ratio** of older workers aged 60-64 years old.
- Most firms chose **continued employment scheme** as measures to ensure elderly employment.
- More than half of firms **limit the application of continued employment** to the workers who meet the standard.
- Typically, continued employment is associated with **wages lowered** by some 40 % and it is **non-regular** job.

Employment Population Ratio by Age (Males)

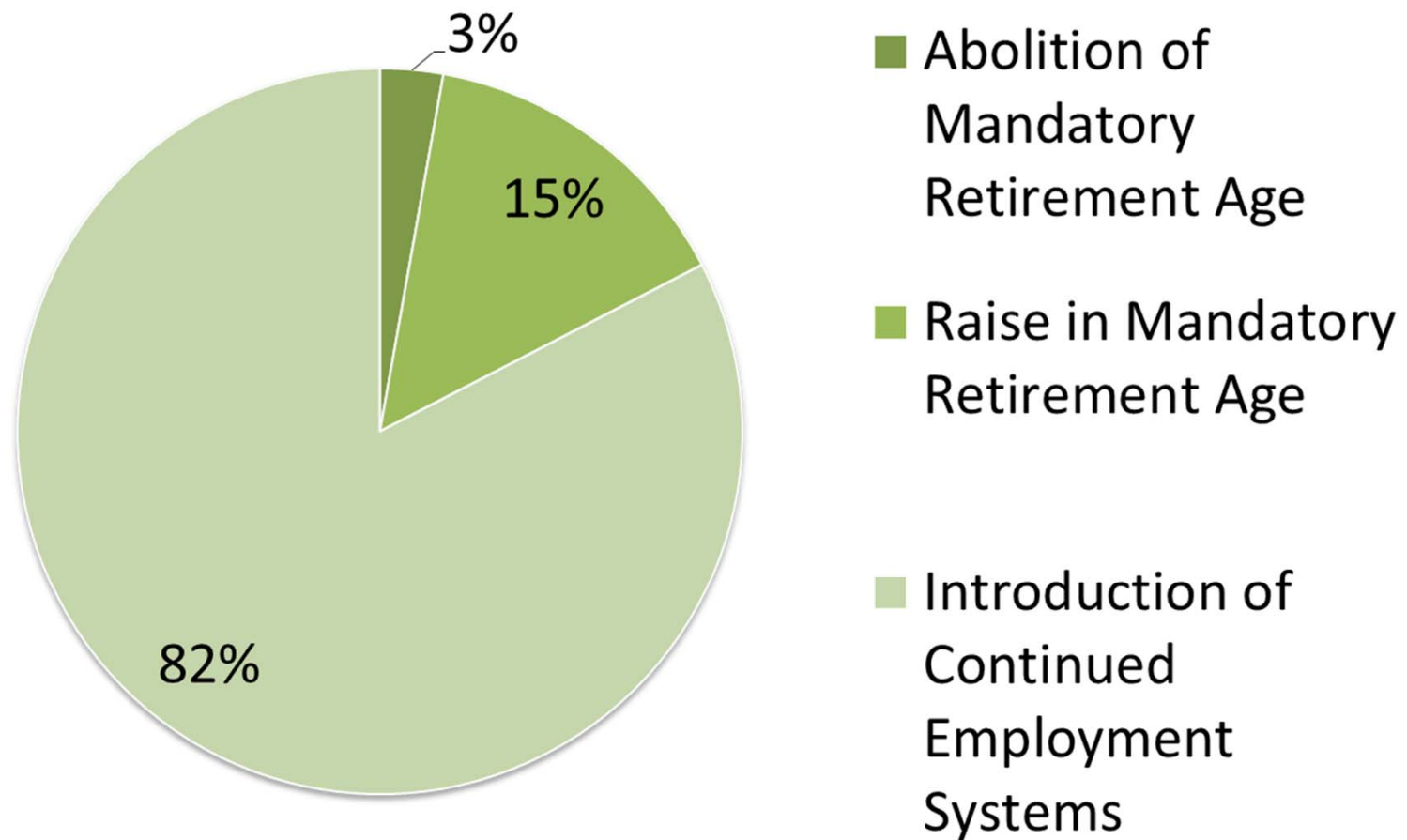


Source: MIC Statistics Bureau, *Labor Force Survey*

Employment Population Ratio by Age (Females)

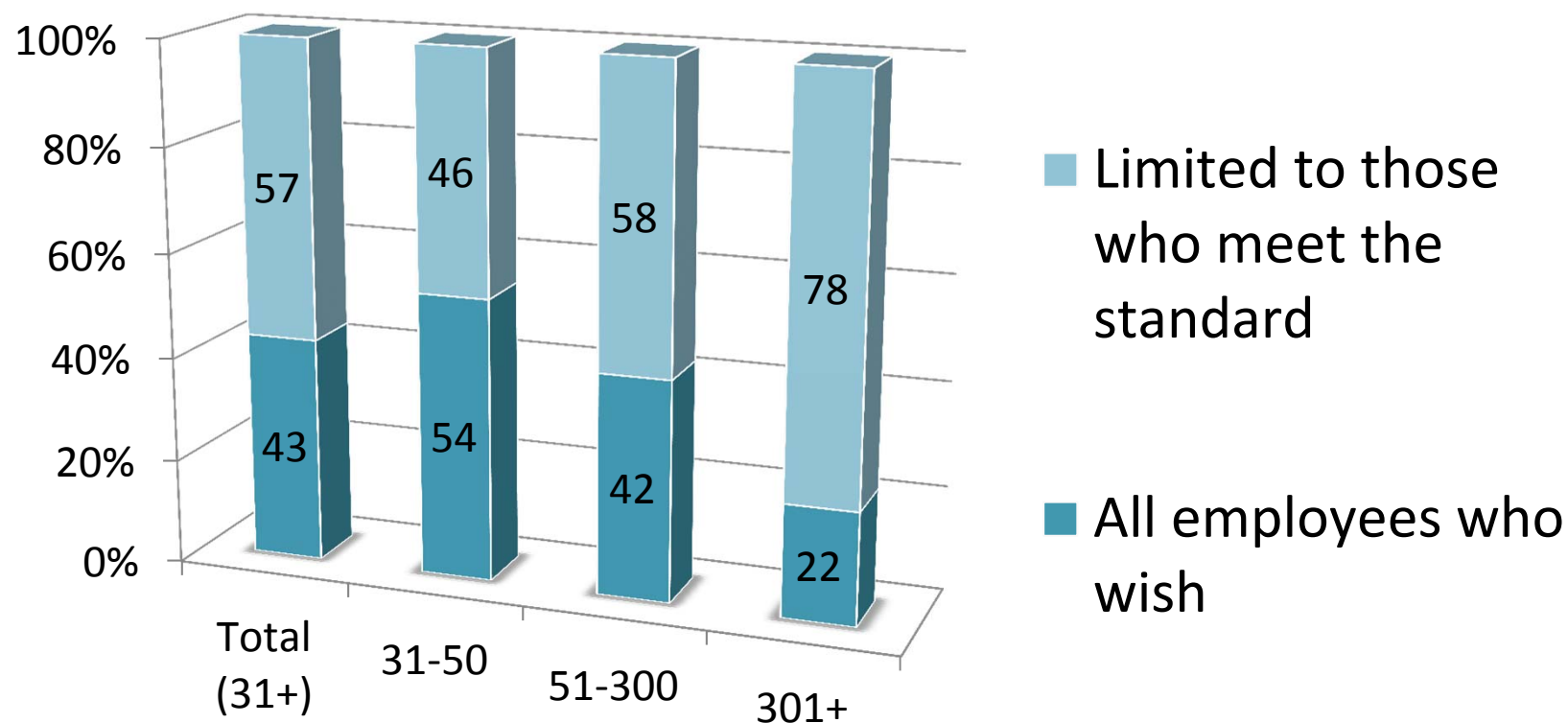


Distribution of Firms by the Measures to Secure Elderly Employment



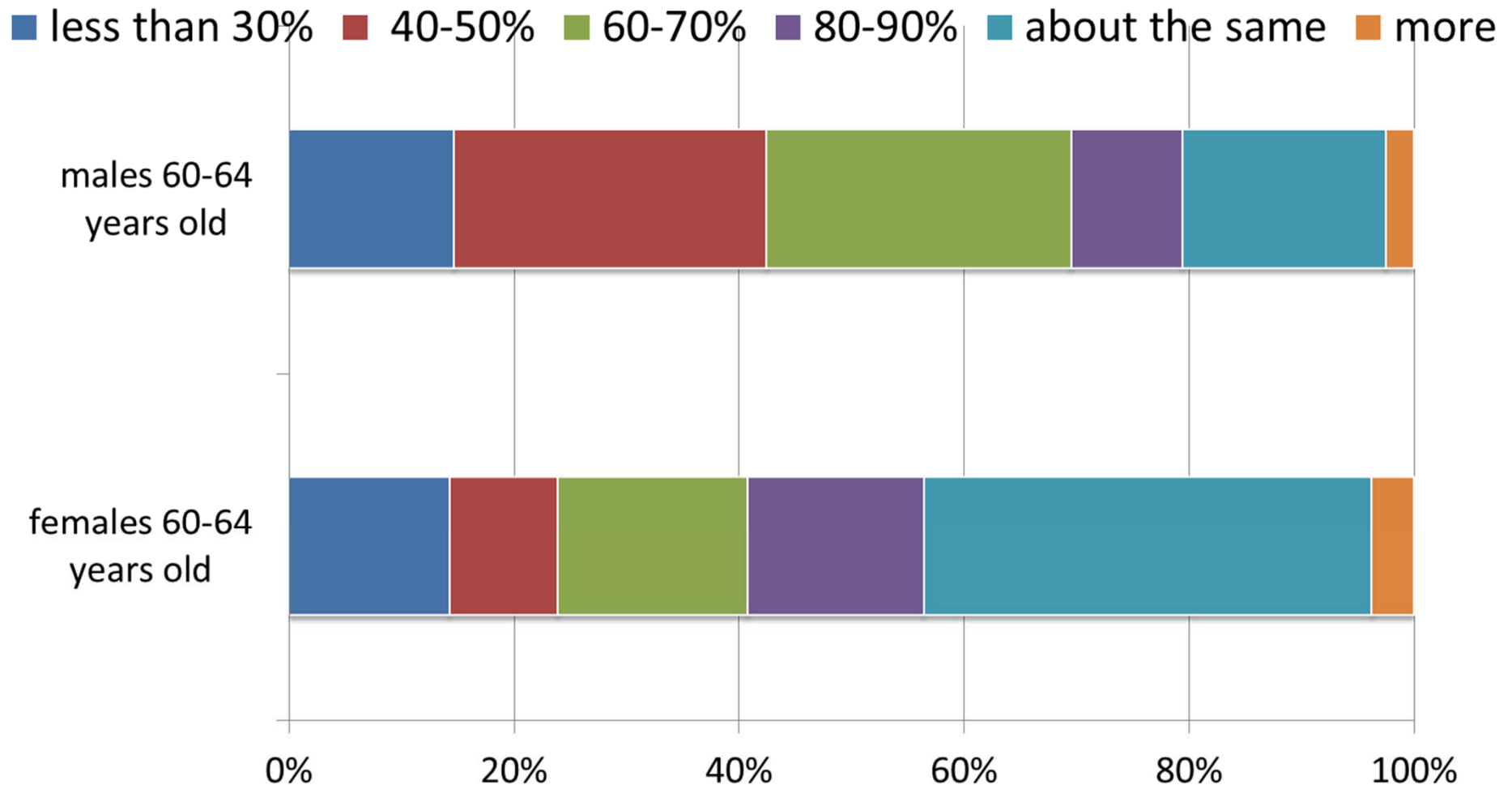
Source: MHLW(2011), *Employment Situation of Older Workers*

Application of Continued Employment System by Firm Size (number of employees)



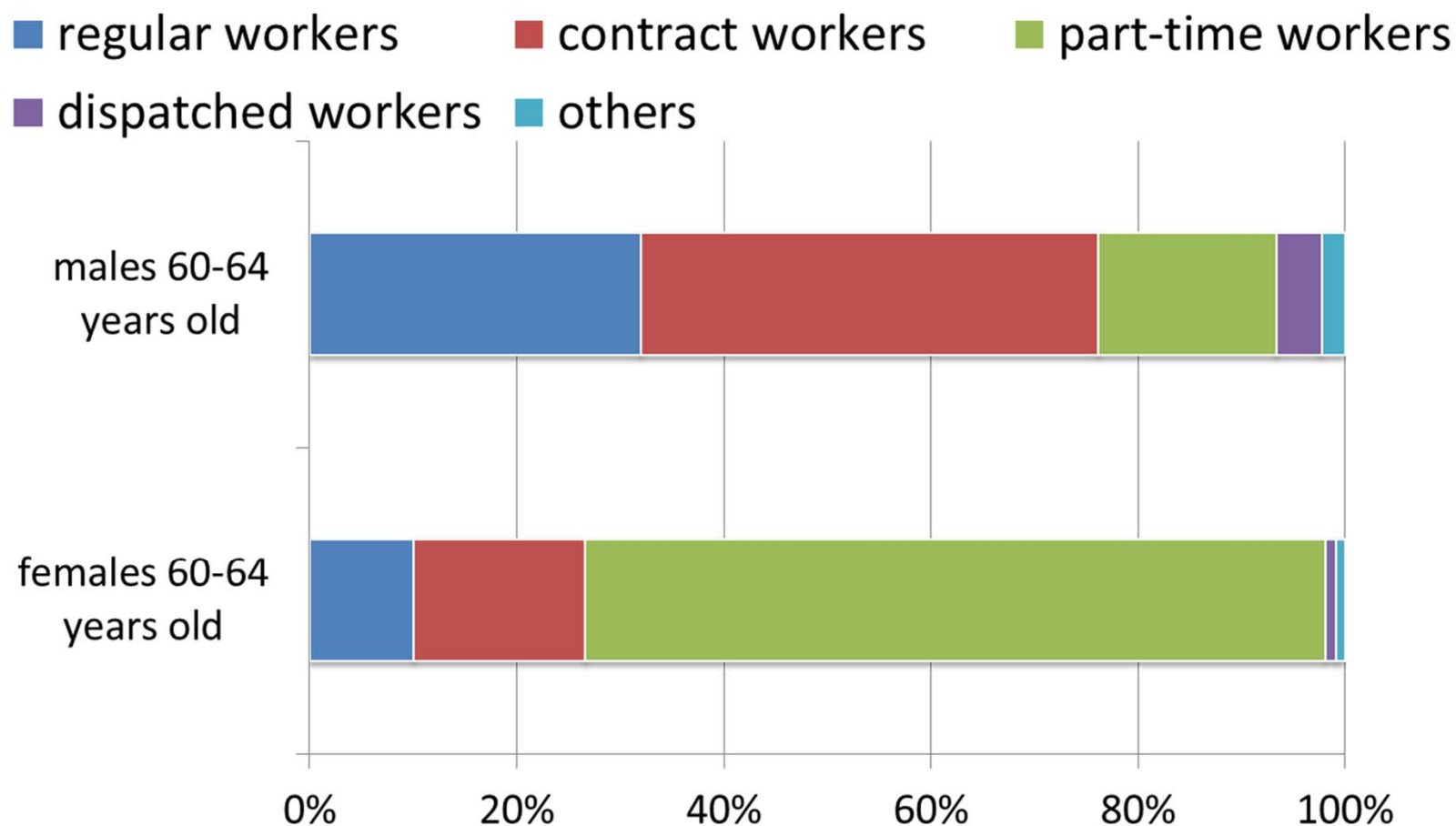
Source: MHLW(2011), *Employment Situation of Older Workers*

Distribution of Workers after Mandatory Retirement by Relative Wages Compared with their Wages at the Mandatory Retirement



Source: JILPT, *Survey on the Actual Conditions of Employment of Older Workers 2009*

Employment Status after Mandatory Retirement

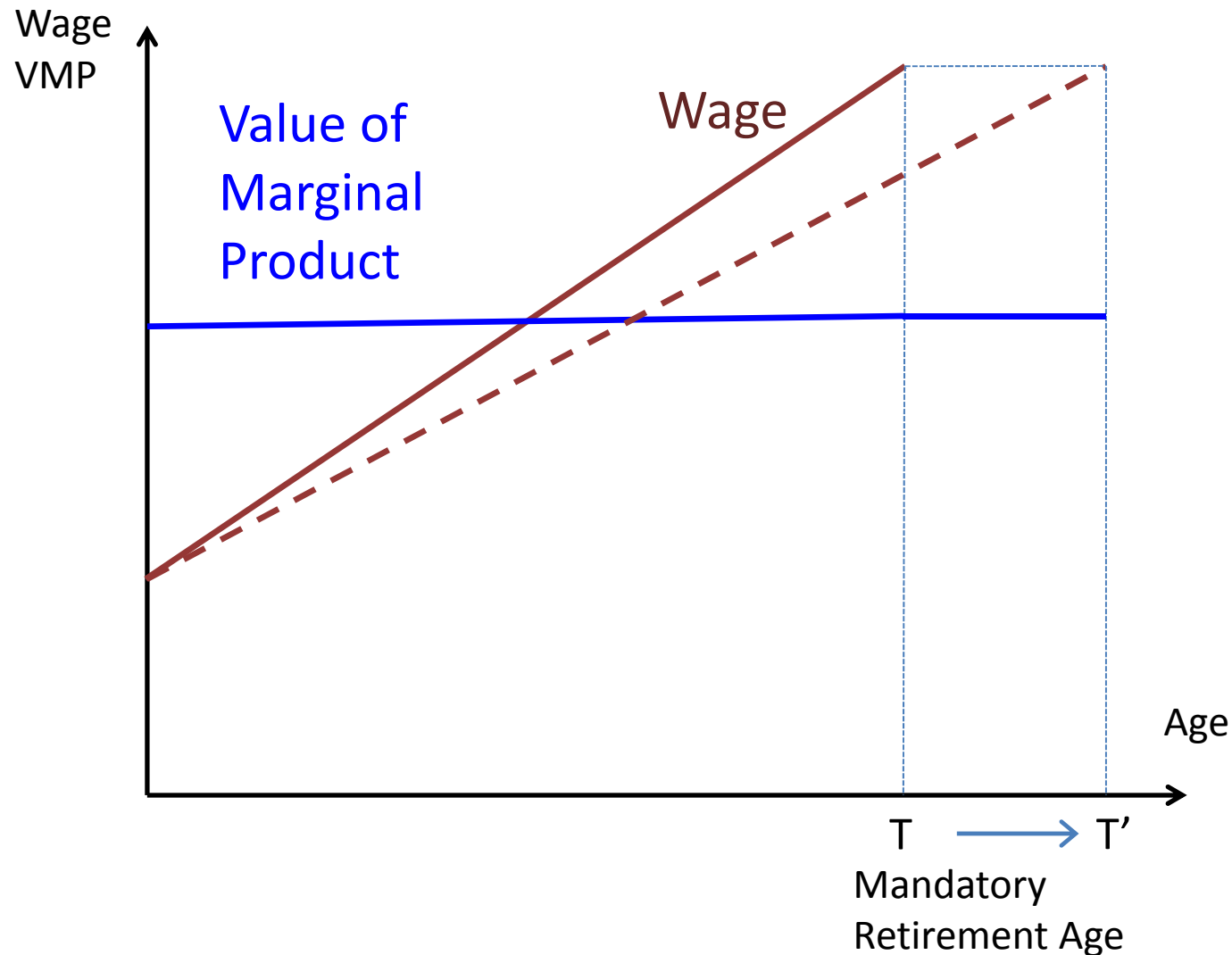


Source: JILPT, *Survey on the Actual Conditions of Employment of Older Workers 2009*

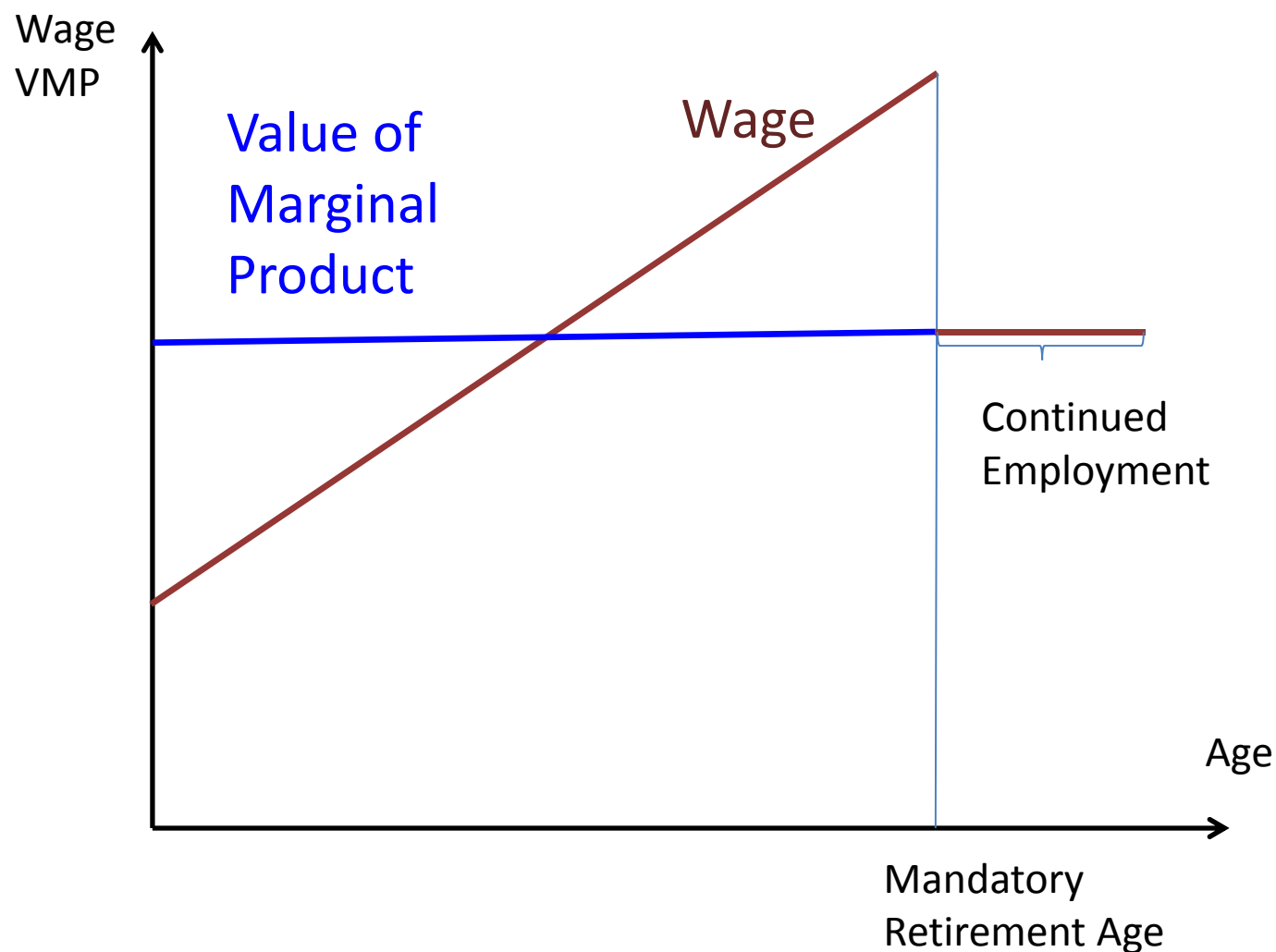
Theoretical Background

- In the deferred payment scheme of wages, it is necessary to balance the total payment of wages with the total contribution of the worker to the firm over the professional life span.
- Thus, extension of mandatory retirement \Rightarrow the flattening of the slope of age-wage profile \Rightarrow it needs time and costs \Rightarrow many firms prefer continued employment to this option .
- In both options, it is crucial that the productivity (value of marginal product) of older workers must not decline so much.
- Generally, the evaluation of performance of an individual employee tends to be more difficult in larger firms.

Deferred Payment Scheme of Wage and Extension of Mandatory Retirement Age



Deferred Payment Scheme of Wage and Continued Employment



Current Debates

- The government plans to make it obligatory for firms to apply **continued employment** until 65 years old **to all workers who wish it**.
- Employers are strongly against this proposal because
 - it would increase labor costs significantly
 - it would affect youth employment negatively.
- Unions are against employers' view.

Concluding Remarks

In order to promote employment for older workers further, it would be necessary;

- To reform the human resource management, especially wage system
- To enhance the employability of older workers, e.g. through training at earlier stages or through improvement of health etc.
- To promote employment for other demographic groups, especially young workers, whose employment might be negatively affected by employment of older workers.