

# Older workers: Lessons from Japan

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# OLDER WORKERS: LESSONS FROM JAPAN

By John B. Williamson and Masa Higo\*

## INTRODUCTION

Working longer is one way to improve the retirement security of today's older workers. It increases retirement resources while shrinking the period over which these resources will be needed.<sup>1</sup> Working longer would also contribute to economic growth, allowing the nation to benefit from the knowledge and skills of older Americans. And it could potentially reduce spending on federal programs such as Medicare and Medicaid.

As U.S. policymakers consider ways to encourage people to extend their worklives, one place to look is Japan, the only major industrial nation with higher labor force participation rates among older workers than the United States. This *brief* presents five reasons why the Japanese work so long.<sup>2</sup>

## INTERNATIONAL LABOR FORCE PARTICIPATION

Labor force participation rates among older persons in Japan are the highest among major industrial nations (see Figure 1).<sup>3</sup> As of 2005, 30.1 percent of Japanese persons aged 60 and older were in the labor force. The United States ranked second in this group with a rate of 25.6 percent, well ahead of Canada, the United Kingdom, Germany, Italy, and France.<sup>4</sup>

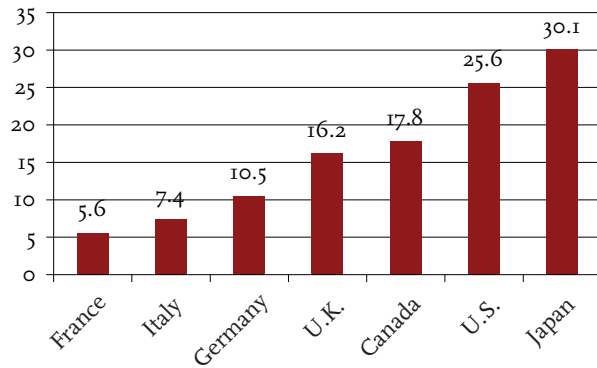
The gap in older worker participation rates between the United States and Japan is due to the different participation rates of men. As shown in Figure 2, 40.5 percent of Japanese men 60 and over participate in the labor force compared to 30.4 percent of U.S. men. In contrast, participation rates for female older

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FIGURE 1. LABOR FORCE PARTICIPATION RATE FOR INDIVIDUALS AGED 60 AND OVER, 2005



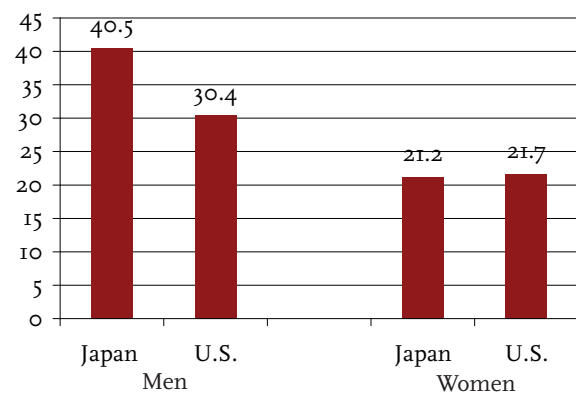
Sources: Data for France, the United Kingdom, and Canada are from Organization for Economic Cooperation and Development (OECD), 2006. Data for Germany, the United States, Japan, and Italy are from International Labor Organization (ILO), 2006.

workers in the two countries are approximately the same: 21.2 percent for Japan and 21.7 percent for the United States.

## WHY THE JAPANESE WORK SO LONG

Five factors contribute to the different labor force participation rates of older workers in the United States and Japan: 1) economic need; 2) type of employment; 3) cultural values; 4) policy factors; and 5) health.

FIGURE 2. LABOR FORCE PARTICIPATION RATE FOR INDIVIDUALS AGED 60 AND OVER IN JAPAN AND THE UNITED STATES, BY GENDER, 2005



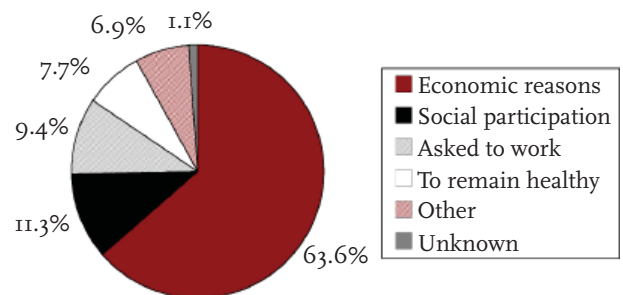
Source: ILO (2006).

## FACTOR 1: DESIRE TO MAINTAIN STANDARD OF LIVING

The vast majority of Japanese workers age 60 and over remain in the labor force primarily to maintain their standard of living at the level experienced during their late 50s. Figure 3 presents results from a national survey conducted by the Japanese Ministry of Health, Labor and Welfare.<sup>5</sup> In this survey, 63.6 percent of the older workers report that they remain in the labor force primarily for economic reasons.

The rationale of “economic reasons” makes sense particularly for workers between ages 60 and 65, due to Japan’s mandatory retirement policy and the structure of its public pension system. Currently, most employers set age 60 as the mandatory retirement age, mainly due to the high cost associated with retaining older workers.<sup>6</sup> But full public pension benefits are not available until age 65.

FIGURE 3. SURVEY RESPONSES TO “THE MOST IMPORTANT REASON WHY STILL IN THE LABOR FORCE,” JAPANESE WORKERS AGED 60 AND OVER, 2004



Source: Ministry of Health, Labor, and Welfare (2005).

The public pension system is made up of two components, Employees’ Pension Insurance (EPI) and the National Pension Plan (NPP). EPI is an earnings-related benefit and the full benefit from this source typically becomes available for workers when they retire — usually at age 60. The NPP, in contrast, is financed with a flat-rate contribution, and workers become eligible for the full benefit at age 65.<sup>7</sup> For an average worker receiving full benefits, each program replaces about 30 percent of pre-retirement income for a total replacement rate of about 60 percent.<sup>8</sup> Many Japanese workers believe that they are unable to maintain an adequate standard of living through the EPI benefit alone. Therefore, they have a strong economic incentive to find a replacement job of some

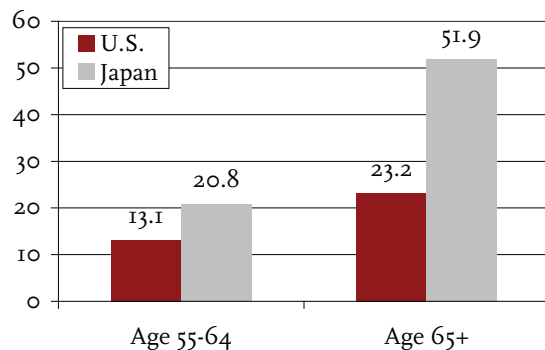
sort after their first retirement, at least until age 65 when they become eligible for the full NPP benefit.

One other economic factor may influence the labor force decisions of older Japanese workers. In Japanese culture, there seems to be a greater expectation than in the United States that grandparents are responsible for the economic well-being of their children and grandchildren. For example, grandparents are often expected to help pay for education and housing loans.<sup>9</sup> When this set of expectations is factored in, the “perceived replacement rate” may turn out to be lower in Japan than in the United States even once the workers reach age 65.

#### FACTOR 2: LARGE PROPORTION OF SELF-EMPLOYED AMONG OLDER WORKERS

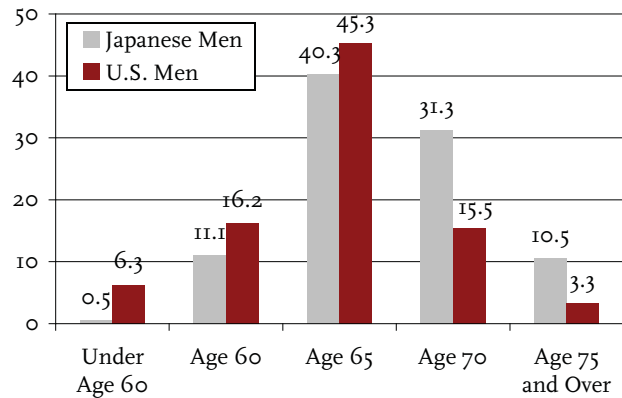
The high rate of self-employment among Japan's older workers helps account for the high rate of labor force participation. Figure 4 compares self-employment levels for older workers aged 55 to 64 and for those aged 65 and over. The evidence suggests that, for both Japan and the United States, there is an increase in the proportion self-employed for the older age group. Even more important is the evidence that, for both age groups, self-employment is more prevalent in Japan.

FIGURE 4. PERCENTAGE OF MALE WORKERS SELF-EMPLOYED IN JAPAN (2004) AND THE UNITED STATES (2002), AGED 55-64 AND 65 AND OVER



Sources: Authors' calculations from Statistics Bureau, General-Director for Policy Planning & Statistical Research and Training Institute, Ministry of Internal Affairs and Communications (2005);<sup>10</sup> and Bureau of Labor Statistics, U.S. Department of Labor (2003).<sup>11</sup>

FIGURE 5. AGE AT WHICH MEN THINK WORKERS SHOULD RETIRE, U.S. AND JAPANESE SURVEY RESPONDENTS, 2000



Note: The numbers do not add to 100, as the figure excludes those who chose another age or did not answer the question.

Source: The Cabinet Office, Government of Japan (2001).

#### FACTOR 3: CULTURAL VALUE PLACED ON REMAINING A PRODUCTIVE MEMBER OF SOCIETY

Japanese culture places a strong value on remaining productive as long as possible throughout the life course, particularly for men. Even among older workers, a much higher value is put on work than on leisure.<sup>12</sup> In contrast, U.S. society is much more accepting of older workers withdrawing from the paid labor force for leisure activities at an age when they are still in good health and fully capable of continued work.<sup>13</sup>

In 2001 the Cabinet Office of Japan published a cross-national opinion survey for males over age 60 in the United States and Japan. The survey question is: “At what age do you think people should leave the labor force (in the respondent's country).” As Figure 5 shows, more Japanese men than U.S. men selected higher ages. The difference is particularly striking for those who select age 70 (31.3 percent in Japan vs. 15.5 percent in the United States).

#### FACTOR 4: GOVERNMENT'S ACTIVE ROLE IN SUPPORTING OLDER WORKERS

The Japanese government has taken a number of initiatives over the years to foster continued labor force participation among older workers. Given the

existence of mandatory retirement policies, much of the effort is designed not so much to protect workers from being forced to retire as it is to provide employers with incentives to help these employees find alternative employment after being forced to retire (from their career jobs) at about age 60.<sup>14</sup>

With the passage of the Employment Promotion Measures Act in 1966, it became a national priority to assist older workers who were very close to the mandatory retirement age in finding new jobs after forced retirement. In 1971 the government enacted the Law Concerning Stabilization of Employment of Older Persons, which remains the most significant policy initiative related to the Japanese government's support of older workers.<sup>15</sup> The 2002 amendment to the 1971 Law required that employers start taking steps to modify their existing employment procedures so as to assure continued employment of workers up to at least age 65. This amendment also implemented various policies to provide unemployed middle-aged workers with seminars and counseling services to promote re-employment.<sup>16</sup>

*Subsidy Programs to Support Employers and Older Employees.* Under subsequent (2004) amendments to the 1971 Law, the government has started providing support for employers in addition to employees, such as providing consultants and financial incentives to promote employment among older workers. These financial incentives are provided through various subsidy programs, which are designed to promote greater efforts by employers to retain their older workers and to promote more outreach to older workers when hiring. In order to encourage employers to utilize the subsidy program effectively, the Cabinet Office has publicized a number of corporations that have won prizes from contests linked to these programs.

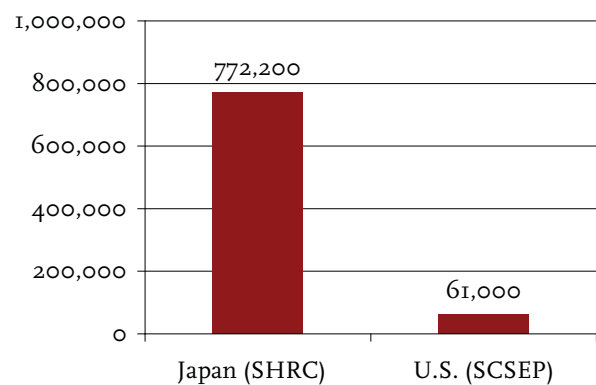
One of the subsidy programs implemented in 2004 is referred to as Subsidy to Promote Older Persons' Business and Self-Employment Opportunities. This program is available for a group of at least three workers aged 45 or older who plan to incorporate with a vision of creating continuous employment opportunities for other older persons. Support is also given to older persons who establish new businesses using their experience by subsidizing a part of the costs if they create new jobs and continuous employment for older workers.<sup>17</sup>

*The Silver Human Resource Center.* The Japanese government's strong commitment to support for older

workers is also reflected in the establishment of the Silver Human Resource Center (SHRC). Fully subsidized by the national and municipal governments, each SHRC chapter provides community-based employment opportunities for local residents age 60 and older who seek such non-regular employments as temporary, contract, part time, or other forms of paid work.<sup>18</sup> Since 2003, the Federation of SHRC chapters has organized a Senior Work Program, through which registered members receive free skills training, counseling services for job-matching, and job interview preparation, with the cooperation of a variety of business owners' associations and public employment security institutions.<sup>19</sup>

The closest analog to the Japanese SHRC program in the United States is arguably the Senior Community Service Employment Program (SCSEP), which Congress authorized through the Older Americans Act of 1965. Although the SCSEP program has provided employment opportunities similar to those in the Japanese program, the target population of the U.S. program is only those who are considered currently low-income and likely to suffer as a result of their poor employment prospects.<sup>20</sup> As shown in Figure 6, the Japanese program serves more than 12 times as many workers — even though Japan has only about 40 percent the population of the United States. And the income resources that the Japanese program provided for its participants in a recent year were more than six times greater than that for the U.S. program's participants.

FIGURE 6. PARTICIPANTS IN JOB SKILLS PROGRAMS FOR OLDER WORKERS, 2004

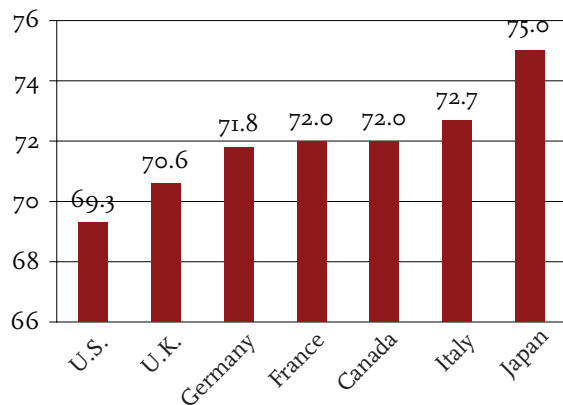


Sources: Authors' calculations based on National Silver Human Resource Center Corporation (2006); and Senior Community Service Employment Program (2006).

## FACTOR 5: GOOD HEALTH OF OLDER PEOPLE IN JAPAN

Japanese older people are generally healthier and thus physically more able to work than their counterparts in other developed countries. As shown in Figure 7, Japan's healthy life expectancy — life expectancy free from disability — was 75.0 years, by far the longest among major industrial countries in 2005.<sup>21</sup> The healthy life expectancy for the United States was only 69.3 years, which was last among this group. Generally, then, Japanese older people are healthier and thus more able to remain in the labor force than their U.S. counterparts.

FIGURE 7. HEALTHY LIFE EXPECTANCY AT BIRTH FOR MAJOR INDUSTRIAL COUNTRIES, 2004



Source: World Health Organization (2005).

## CONCLUSION

As the baby boomers reach traditional retirement ages, U.S. policymakers may wish to encourage longer worklives. The Japanese have very high rates of labor force participation among older workers, particularly men. While these high rates may be due in part to cultural differences, U.S. policymakers can draw several practical lessons from the Japanese experience. Options that offer the most promise are strengthening financial incentives for work at older ages, broadening the reach of job skills programs, and promoting self-employment opportunities. If the federal government chose to expand its efforts in these areas, the payoff would likely benefit individuals, the economy, and society as a whole.

## ENDNOTES

- 1 Munnell, et al. (2006).
- 2 For this project, we conducted interviews in the Tokyo area in June of 2006 with a variety of experts such as sociologists, gerontologists, and political scientists who are affiliated with public and private universities, think tanks, and government agencies.
- 3 As used in this *brief*, “major industrial nations” refers to the United States, the United Kingdom, Japan, France, Germany, Italy, and Canada. Using a broader range of industrial countries, Japan ranks near the top in labor force participation of older workers.
- 4 These trends are consistent across subgroups of the older population, including those aged 60-64, 65-69, 70-74, and 75 and over.
- 5 Ministry of Health, Labor, and Welfare (2005).
- 6 In 2004, approximately 91.5 percent of Japanese corporations had mandatory retirement age rules (Japan Organization for Employment of Older Persons and Persons with Disabilities, 2005). While most companies have set 60 as their mandatory retirement age, recent legislation requires them to gradually increase it to at least 65 by 2013. Moreover, despite the current rules, many Japanese workers do have options (shifting to a different job within the organization, shifting to an affiliated organization, shifting to part-time employment, etc.) making it possible to work beyond the typical corporate mandatory retirement age (Seike and Yamada, 2004).
- 7 Takayama (2001).
- 8 In 2005, this combined benefit came to about US\$2,100 per month (Social Insurance Agency, Ministry of Health, Labor, and Welfare, 2006).
- 9 Sato, et al. (2005).
- 10 The Ministry of Internal Affairs and Communications defines the self-employed as “those who earn income by individually running business without incorporation and those who engage in wage labor at home, such as working for family businesses.” The data presented above include both workers in agricultural and nonagricultural sectors. See Statistics Bureau (2005).
- 11 The U.S. Bureau of Labor Statistics, in its *Current Population Survey*, defines the self-employed as “those who report they work for themselves in an unincorporated business for their main jobs.” Here, the self-employed exclude those in incorporated business. The data presented above include both workers in agricultural and nonagricultural sectors. See Bureau of Labor Statistics (2006).
- 12 Kiyokawa and Yamane (2004). See also Sengoku, Ezaki, and Ezaki (1985).
- 13 Inglehart, Basanez, and Moreno (1998).
- 14 Seike and Yamada (2004).
- 15 Seike and Yamada (2006, 2004); Rix (1996), and Takahashi (1997).
- 16 Japan Organization for Employment of Older Persons and Persons with Disabilities (2005).
- 17 The Cabinet Office, Government of Japan (2006).
- 18 Since the 2002 amendment of the 1971 *Law*, SHRC has evolved under the slogan of “active aging society” not only to provide employment opportunities but also a variety of programs fostering social participation activities for those who are age 60 and over. The SHRC has evolved into a public program for the comprehensive welfare of older citizens.
- 19 National Silver Human Resource Center Corporation (2006).
- 20 Senior Community Service Employment Program, U.S. Department of Labor Employment & Training Administration (2006). See also Lalonde (1995).
- 21 World Health Organization (2005).



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The Center for Retirement Research at Boston College was established in 1998 through a grant from the Social Security Administration. The Center's mission is to produce first-class research and forge a strong link between the academic community and decision-makers in the public and private sectors around an issue of critical importance to the nation's future.

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