# Retirement Systems in Japan

**Robert L. Clark**
Department of Economics and Business
*North Carolina State University*

Ralph H. Blanchard Memorial Endowment Series
Volume IV

*Published for the*
*Pension Research Council*
*Wharton School*
*University of Pennsylvania*
*by*

**IRWIN**
Homewood, IL 60430
Boston, MA 02116

Sponsoring editor: Michael W. Junior
Project editor: Paula M. Buschman
Production manager: Diane Palmer
Compositor: BookMasters, Inc.
Typeface: 11/13 Melior
Printer: Arcata Graphics/Kingsport

**Library of Congress Cataloging-in-Publication Data**

Clark, Robert Louis.
Retirement systems in Japan / Robert L. Clark.
p. cm. — (Ralph H. Blanchard memorial endowment series ; v. 4)
ISBN 0–256–09141–2
1. Old age pensions—Japan. 2. Retirement income—Japan.
3. Social security—Japan. I. Title. II. Series.
HD7105.35.J3C56 1991
331.25'2'0952—dc20 90–4531
CIP

*Printed in the United States of America*
1 2 3 4 5 6 7 8 9 0 K 7 6 5 4 3 2 1 0

# CHAPTER 2

# Work and Retirement

## LABOR MARKETS AND EMPLOYMENT CONTRACTS

The Japanese labor market for regular, full-time male workers is characterized by long-term employment with a single employer, combined with a comprehensive compensation system.[1] This means many workers join a particular firm immediately after graduating from school and remain with that company until the mandatory retirement age. Turnover among Japanese workers is lower than it is in the United States, and, as a result, the average length of job tenure is longer.[2]

The employer trains the worker and provides a wide array of employee benefits. Bonuses are generally paid in addition to monthly earnings.[3] The annual bonus is typically equivalent to one third of annual earnings. In 1988, bonuses averaged 3.4 months of earnings.[4] Bonuses vary with the profitability of the company and are typically paid during the summer and at the end of the year.[5] The bonus system allows firms to reduce total compensation (earnings plus bonuses) during periods of reduced demand. This flexibility in total compensation facilitates the retention of workers during economic downturns. However, during the 1980s, bonuses had been a relatively constant multiple of monthly earnings. Thus, it would seem that bonuses have virtually become a fixed component of annual salaries.

Female workers tend to have less job tenure and lower salaries. The intermittent pattern of lifetime labor supply of women differs substantially from the long-term relationship between male workers and their employers. Part-time workers, whether male or female, have

**TABLE 2–1** Proportion of Employees Who Are Part-Time Workers (by firm size)

| *Size of Firm* | *1975* | *1978* | *1979* | *1980* | *1984* | *1985* |
|---|---|---|---|---|---|---|
| Total | 2.9% | 4.7% | 6.0% | 5.8% | 7.6% | 8.6% |
| 5–29 | 5.4 | 7.0 | 9.8 | 7.9 | 10.0 | 11.4 |
| 30–99 | 3.2 | 5.4 | 7.3 | 6.7 | 11.2 | 11.2 |
| 100–299 | 2.9 | 5.1 | 6.0 | 6.8 | 6.9 | 8.9 |
| 300–999 | 1.6 | 3.5 | 4.8 | 6.3 | 6.0 | 7.3 |
| 1,000 or more | 1.4 | 3.1 | 2.9 | 3.8 | 5.3 | 5.7 |

SOURCE: Ministry of Labor, Survey on Employment Trend, as reported in Japan Institute of Labor, *Japanese Working Life Profile* (Tokyo: Japanese Government, 1987), p. 72.

higher rates of turnover and are often excluded from many company benefits. In 1981, a special survey of the labor force found that 94 percent of male employees were regular workers, but only 74 percent of females were regular employees. Nonregular employees include part-time workers and other employees who are not regular employees. The proportion of workers who are part time is larger for small firms; however, the use of part-time workers has increased for all firm sizes.[6] Table 2–1 indicates that the proportion of all employees who are part time increased from 2.9 percent in 1975 to 8.6 percent in 1985.

For regular workers, cash earnings grow with seniority, and the level of pay is often tied more to years of service than to performance. Automatic salary increases are guaranteed in return for satisfactory service and remaining on the job. The seniority-based pay system in Japan has attracted considerable attention from analysts in the United States. The uniqueness of this compensation method is debatable, as most employers in the United States and other developed countries have, to some extent, seniority-based pay systems. In addition, recent surveys conducted by the Ministry of Labor indicate that an increasing proportion of firms are using ability or merit pay systems.

Most firms specify a definite end to the career by imposing a mandatory retirement age. Traditionally, this age of compulsory retirement has been relatively young. Until the 1970s, 55 was the most common age of mandatory retirement. In general, retirement benefits are paid to departing workers so that the career job is concluded with a final lump-sum payment. Most companies' retirement benefit plans use uniform percentages or formulas for all workers to determine lump-sum retirement allowances, bonuses, salary increases, and pension benefits.[7]

This system of industrial relations has been undergoing substantial change in response to the aging of the population and the increased number of retirees. Evidence indicates firms are responding

to the aging of the population by actions that tend to reduce the compensation of older workers. These actions include reducing the wage increase after age 50 and revising downward formulas for retirement benefits. To further counteract the effect of rising costs of an older labor force, some firms have begun to offer early retirement incentives.[8]

The system of long-term employment is much more prevalent in large firms. Larger firms also pay higher total compensation, are more likely to have mandatory retirement policies, and are more likely to offer retirement payments. Larger companies in the United States also pay higher total compensation and are more likely to offer retirement benefits.

The earnings differential among companies of various sizes in Japan has been widening since 1965. In 1985, scheduled earnings in firms with 1,000 or more workers was 15 percent higher than in companies with 100 to 999 employees and 21 percent higher than in firms with 10 to 99 employees. The differential is a function of age, as young workers in small firms have almost the same earnings as those in large firms. The differential widens with age until the late 50s and then begins to decline.[9]

The value of nonstatutory employee benefits including pensions and retirement allowances is much greater for large companies. As a result, large firms have lower turnover rates and tend to invest more in training their workers. For example, the average tenure for a male manufacturing worker aged 40 to 44 in 1986 was 21.3 years for workers in firms with 1,000 or more workers, compared to 17.6 years in firms with 100 to 999 employees and only 12.7 years in firms with 10 to 99 employees.[10] Thus, throughout this analysis, distinctions will be drawn based on the size of the employer.

## MANDATORY RETIREMENT

The Japanese industrial relations system is characterized by job security and annual pay increases for regular workers up to the age of mandatory retirement. Virtually all firms with more than 30 employees require workers to retire at some specified age. Despite these policies, labor force participation rates of older persons in Japan is the highest in the developed world. This section examines the use of mandatory retirement as a personnel policy among Japanese firms. The analysis considers how the age of mandatory retirement has changed over time with the aging of the population and in response to government policies encouraging delayed retirement.

In Japan, it is very difficult for employers to discharge or lay off regular employees except when the worker has engaged in some form of misconduct. The guarantee of continued employment coupled with a seniority-based compensation system encourages firms to establish a formal end to the employment arrangement at some specified age. Worker salaries are increased each year regardless of performance. Such seniority pay systems may result in older workers being paid more than the value of their productivity, thus providing firms with an incentive to force workers to retire. If older workers were permitted to remain on the job indefinitely, labor costs would continue to rise more rapidly than productivity. With this compensation system, firms have a strong financial incentive to set a definite date for the end of the employment contract. The link between final pay and retirement benefits also provides an incentive for firms to encourage or force older workers to leave the firm.

The compulsory retirement system was first instituted at the end of the 19th century. The mandatory retirement age was typically set at 55. During this period, life expectancy was much lower and turnover was greater. In this setting, mandatory retirement coupled with a lump-sum retirement benefit was used as a reward for remaining on the job. Since 1945, the mandatory retirement system has become an important firm personnel policy enabling firms to remove older workers from their payrolls and, in the process, reduce labor costs and increase promotional prospects for younger workers.[11]

Mandatory retirement is widely used in all sectors of the Japanese economy. In 1988, 88 percent of all firms with 30 or more employees required workers to retire at some specified age. The proportion of firms with such policies has increased steadily since 1973, when only two thirds of firms had adopted policies of compulsory retirement for their workers. Mandatory retirement is more prevalent among large firms, with virtually all firms (over 99 percent) with 300 or more employees adopting such a policy. Even for smaller firms, coverage rates are quite high—97 percent of firms with 100 to 299 employees and 84 percent of firms with 30 to 99 employees have specified mandatory retirement ages.

## Government Policy toward Mandatory Retirement

As noted above, the traditional mandatory retirement age has been 55. As late as 1967, 63 percent of all firms imposed an age 55 retirement policy, with most other firms adopting a compulsory retirement age between 56 and 60. Over time, the retirement age has been raised partially in response to government policies encouraging delayed re-

tirement. The first such legislation encouraging the continued employment of older workers was passed in 1973. This law provided encouragement for firms to voluntarily extend their age limits. In April 1986, the Stabilization of Employment for Elderly Persons Act was passed by the Diet, the National Assembly of Japan. This legislation states that firms are to initiate policies to raise the mandatory retirement age to 60. This act promoted as policy the establishment of a minimum age for mandatory retirement at age 60 and encouraged the raising of this minimum from 60 to 65.[12] However, no penalties are imposed on firms that do not raise their retirement age to meet this objective. Thus, many companies continue to impose mandatory retirement prior to age 60.

The prevalence of mandatory retirement as a personnel policy in Japan differs substantially from current U.S. practices. Prior to the 1980s, mandatory retirement policies were widely used in conjunction with employer pensions by many firms in the United States.[13] The Age Discrimination in Employment Act, passed in 1967, precluded the use of mandatory retirement prior to age 65 in most jobs. In 1978, this act was amended, raising the earliest age of legal mandatory retirement to 70. Further amendments to the Age Discrimination in Employment Act were passed in 1986. These amendments outlawed the use of mandatory retirement altogether as a personnel policy at any age for most jobs.

In both countries, the government has tried to encourage greater work opportunities for older persons by raising permissible ages for mandatory retirement. In the United States, the elimination of mandatory retirement has had very little effect on the work rates of older persons. This limited effect is due to the high incidence of early retirement.[14] In Japan, persons are much more likely to work up to the age of mandatory retirement. Therefore, raising this age will tend to have a greater impact on the probability that older workers will remain with the firm.

## Distribution of Mandatory Retirement Ages

By 1987, the modal retirement age in Japan had risen to 60, with 54 percent of firms adopting this age and only 23 percent still using 55 as the mandatory age of retirement.[15] Changes in the distribution of mandatory retirement ages between 1972 and 1987 are shown in Table 2–2. Large firms tend to have later retirement ages than smaller firms: 86 percent of firms with 5,000 or more employees now adopt age 60 as the compulsory retirement age, while only about three fifths of firms with less than 1,000 employees set age 60 as the mandatory

**TABLE 2–2** Distribution of Mandatory Retirement Ages (percent of companies)

| | Age | | | | | |
|---|---|---|---|---|---|---|
| *Year* | *54 or Lower* | *55* | *56–59* | *60* | *61–64* | *65* |
| 1972 | 0.7% | 57.9% | 18.3% | 21.7% | 0.3% | 1.1% |
| 1978 | 0.1 | 41.3 | 19.4 | 33.7 | 0.4 | 4.4 |
| 1982 | 0.5 | 35.5 | 18.2 | 43.0 | 0.8 | 2.0 |
| 1986 | 0.1 | 26.7 | 16.6 | 52.5 | 2.3 | 1.8 |
| 1987 | 0.3 | 23.0 | 18.0 | 53.9 | 2.3 | 2.5 |

SOURCE: *Survey of Employment Management*, various years.

**TABLE 2–3** Mandatory Retirement Age and Size of Firm: 1989*

| | Age | | | | | | |
|---|---|---|---|---|---|---|---|
| *Firm Size* | *54 or Lower* | *55* | *56–59* | *60* | *61–64* | *65* | *66 or older* |
| All firms | 0.5% | 20.7% | 17.0% | 57.6% | 1.1% | 2.9% | 0.3% |
| 30–39 | 0.7 | 21.8 | 16.3 | 56.4 | 1.1 | 3.4 | 0.3 |
| 100–299 | 0.2 | 20.0 | 18.5 | 57.9 | 1.0 | 2.2 | 0.2 |
| 300–999 | | 15.6 | 19.0 | 62.8 | 1.8 | 0.8 | |
| 1,000–4,999 | | 10.4 | 14.5 | 74.0 | 0.7 | 0.4 | |
| 5,000 and over | | 4.9 | 8.7 | 86.4 | | | |

*Entries represent the percentage of firms with a mandatory retirement policy that have adopted the specified age.

SOURCE: Kiyoshi Murakami, "Severance and Retirement Benefits in Japan," in *Pension Policy: An International Perspective*, John Turner and Lorna Dailey (Eds.) Washington, D.C.: U.S. Government Printing Office, forthcoming.

retirement age (see Table 2–3). Smaller firms are much more likely to continue to use 55 as the mandatory retirement age. Almost one fifth of firms with less than 1,000 workers set 55 as the age of compulsory retirement, and another 15 to 19 percent of these firms use ages 56 to 59.

The variation in average retirement ages by industries is shown in Table 2–4. The average retirement age is the average for firms in each industry unweighted for size of the firm. The data illustrate that the mandatory retirement age has risen in each industry. In 1986, the lowest industry average retirement age was 57.7 (mining), and the highest average age of compulsory retirement was 58.9 (services). For all firms, the average retirement age rose from 56.5 in 1967 to 58.6 in 1987.

## WORK AFTER RETIREMENT

Despite the almost universal use of mandatory retirement requirements at age 60 or younger, the labor force participation rates of older

**TABLE 2–4** Average Retirement Age by Industry*

| *Industry* | *1972* | *1978* | *1982* | *1986* |
|---|---|---|---|---|
| Mining | 56.1 | 56.0 | 56.4 | 57.7 |
| Construction | 57.3 | 58.4 | 58.5 | 58.7 |
| Manufacturing | 56.6 | 57.2 | 57.8 | 58.4 |
| Trade | 56.4 | 57.3 | 57.2 | 58.0 |
| Finance and insurance | 56.6 | 56.6 | 56.8 | 58.1 |
| Real estate | 57.0 | 57.2 | 58.3 | 58.7 |
| Utilities | 55.3 | 57.2 | 57.4 | 58.8 |
| Transportation, communication | 56.0 | 56.6 | 57.7 | 58.4 |
| Services+ | — | 57.8 | 58.5 | 58.9 |

*Average retirement age for each industry is calculated by finding the age based on the portion of firms in each industry using various ages. This technique does not weight for the number of persons covered by each retirement age.

+The service sector was not included in the 1972 survey.

SOURCE: *Survey on Employment Management,* various years, and my calculations.

**TABLE 2–5** Labor Force Participation Rates of Men Aged 65 and Older

| *Country* | *1950* | *1960* | *1970* | *1980* | *1985** |
|---|---|---|---|---|---|
| Australia | 32.7% | 28.2% | 21.8% | 13.5% | 12.7% |
| Belgium | 19.4 | 9.4 | 6.2 | 4.6 | 4.4 |
| Canada | 40.9 | 30.4 | 21.7 | 14.6 | 13.8 |
| Denmark | 38.0 | 32.4 | 26.9 | 15.3 | 14.2 |
| France | 37.2 | 26.1 | 15.0 | 6.0 | 5.6 |
| Germany | 27.5 | 21.4 | 16.7 | 4.9 | 4.7 |
| Italy | 46.6 | 27.5 | 14.5 | 7.5 | 6.8 |
| Japan | 54.5 | 54.5 | 54.5 | 45.8 | 42.7 |
| Netherlands | 31.5 | 20.4 | 11.4 | 4.5 | 4.2 |
| Sweden | 36.4 | 27.7 | 19.0 | 10.3 | 9.7 |
| United Kingdom | 34.4 | 26.6 | 18.8 | 11.0 | 10.6 |
| United States | 45.0 | 33.9 | 25.5 | 19.1 | 18.2 |

*Labor force participation rates for 1985 are based on projections by the International Labor Office. Actual rates for 1985 tend to deviate somewhat from these projections.

SOURCE: United Nations, *World Demographic Estimates and Projections, 1950–2025* (New York: United Nations, 1988).

Japanese are among the highest in the developed world. Table 2–5 shows that the participation for Japanese men age 65 and older was 42.7 percent in 1985, which is more than 30 percentage points higher than that for most of the European countries and 25 percentage points higher than for older men in the United States. Although their participation rates have fallen during the last four decades, this disparity in the work rates of older men in Japan relative to other developed countries has widened considerably since 1950.[16]

How can we reconcile the widespread use of mandatory retirement and the high labor force participation rates of older Japanese? The explanation of this apparent paradox lies in the distinction between retiring from a career job and leaving the labor force altogether. Many companies have instituted reemployment policies where workers who have passed the age of mandatory retirement are rehired. In 1986, 70 percent of companies with 30 or more employees reported having some type of employment extension or reemployment program. Such personnel policies are more prevalent among smaller firms.[17] These returning workers are typically employed in lower-ranking jobs and at a lower salary. In addition, they do not receive the automatic pay increases associated with further seniority. Thus, some workers are mandatorily retired but remain employed by the same firm.

The practices of reemployment or employment extension make older workers more desirable to firms and, therefore, increase the demand for them. These policies give employers increased flexibility in determining personnel decisions, lower labor costs, and enhance promotional prospects for younger workers. There is some evidence that firms are beginning to downgrade older workers even prior to the age of mandatory retirement. This seems to be occurring in firms that are raising their age of compulsory retirement.[18]

Extending employment past the age of mandatory retirement clearly increases job opportunities for older workers. However, these workers receive wage reductions, lower benefits, and job reassignment. Such practices would clearly be illegal in the United States under the Age Discrimination in Employment Act. This act protects workers over age 40 from adverse personnel policies based solely on their age. Thus, firms in the United States cannot arbitrarily reduce wages of older workers or demote them at a specific age. The inability to adjust wages and job responsibilities may reduce the demand for older workers in the United States.

Another common personnel policy in Japan is for older workers to leave their current employer, who then helps them find a new job with one of its subsidiary firms. Still other "retiring" workers start their own business or find jobs with new employers. The labor force data clearly reveal that older workers who are mandatorily retired in their 50s do not stop all work and leave the labor force. Instead, most of these "retirees" find new jobs and remain at work for many more years.

## GOVERNMENT EMPLOYMENT POLICIES

The Japanese government has attempted to entice firms to raise the age of mandatory retirement to 60 or even 65; however, legislation

outlawing compulsory retirement prior to age 60 was recently defeated in the Diet. In addition, the government has encouraged the hiring and retention of older workers through subsidies to firms. A series of government actions beginning in 1966 have been aimed at increasing employment opportunities for older persons. The Employment Promotion Measures Act of 1966 set guidelines for hiring workers age 35 and over. Firms were encouraged to comply and were offered subsidies, but they could not be forced to meet government employment targets. Employment goals for older workers were revised and extended in 1971.

Subsidy schemes include wage subsidies to firms hiring older workers through public placement agencies, subsidies for retaining employees past age 60, payments to firms that maintain a specified ratio of workers age 60 to 65 to total employees, and lump-sum payments to firms hiring persons age 60 to 65 within three months of their retirement. Recently, the government has instituted a system of subsidies to new firms that use large numbers of retirees. Employment subsidies may be a one-time payment to firms hiring or retraining older workers or a continuing monthly payment.[19]

A continuing objective of public policy is to promote a higher mandatory retirement age to enable persons to remain with their career firm until age 65. To facilitate work until older ages, the government is attempting to expand employment options available to older workers and to provide vocational retraining programs. The government also hopes to promote the redistribution of employment opportunities toward older workers and, hence, produce more leisure time for younger workers.[20]

Retired workers' job searches are aided by a series of Talent Banks that help older persons find new jobs. The first Talent Bank was established in Tokyo in 1967. Currently, there are 25 of these institutions nationwide whose objective is to help persons over age 40 with experience in management or specialized fields find reemployment with small- and medium-size firms.

These efforts are supplemented by 300 silver talent or manpower centers that attempt to place older persons in short-term or part-time jobs.[21] The first silver manpower center was established in Tokyo in 1975 with funds from local governments. Similar systems were introduced throughout Japan, and in 1980, the Ministry of Labor began to provide a subsidy to these centers. The silver manpower centers do not provide direct employment opportunities with firms in the community. Instead, the center enters into a contract with the employer to provide specific services, and then employment opportunities are allocated to center participants. Jobs tend to be temporary and service

**TABLE 2–6** Age-Specific Labor Force Participation Rates

| | *Males* | | | | *Females* | | | |
|---|---|---|---|---|---|---|---|---|
| | *Japan* | | *United States* | | *Japan* | | *United States* | |
| *Age* | *1970* | *1985* | *1970* | *1986* | *1970* | *1985* | *1970* | *1986* |
| 55 | 96.1% | 95.6% | 91.8% | 84.1% | 57.2% | 53.9% | 52.6% | 56.3% |
| 56 | 95.4 | 94.5 | 90.7 | 80.9 | 55.8 | 51.7 | 48.2 | 54.5 |
| 57 | 94.8 | 93.5 | 89.1 | 79.7 | 54.4 | 49.9 | 50.0 | 51.3 |
| 58 | 93.0 | 91.9 | 87.7 | 77.2 | 51.7 | 47.9 | 47.6 | 48.4 |
| 59 | 91.6 | 89.5 | 87.5 | 73.4 | 49.7 | 45.7 | 45.9 | 46.1 |
| 60 | 89.4 | 84.4 | 83.9 | 69.2 | 47.2 | 42.5 | 44.0 | 42.3 |
| 61 | 87.9 | 80.0 | 81.2 | 66.2 | 45.4 | 39.8 | 38.5 | 37.8 |
| 62 | 86.1 | 77.6 | 73.9 | 53.5 | 43.3 | 37.8 | 36.1 | 31.8 |
| 63 | 83.7 | 74.8 | 69.4 | 44.3 | 40.8 | 35.3 | 31.9 | 28.1 |
| 64 | 80.7 | 71.7 | 64.4 | 39.4 | 37.9 | 33.0 | 28.4 | 25.2 |
| 65 | 78.1 | 67.5 | 49.9 | 30.8 | 35.9 | 30.5 | 22.1 | 18.6 |
| 66 | 75.2 | 63.8 | 44.7 | 27.6 | 33.2 | 28.1 | 19.3 | 15.4 |
| 67 | 72.1 | 60.5 | 39.4 | 24.0 | 30.9 | 26.2 | 16.2 | 13.5 |
| 68 | 68.7 | 57.2 | 37.7 | 20.7 | 28.5 | 23.9 | 15.0 | 12.4 |
| 69 | 65.0 | 53.5 | 34.0 | 20.7 | 25.6 | 21.7 | 12.9 | 10.5 |
| 70 | 60.7 | 49.7 | 30.2 | 17.1 | 23.7 | 19.3 | 12.2 | 8.4 |
| 71 | 55.6 | 46.1 | 27.9 | 15.3 | 20.1 | 17.3 | 9.8 | 7.1 |
| 72 | 51.3 | 42.7 | 24.8 | 14.1 | 18.1 | 15.5 | 8.6 | 6.9 |
| 73 | 47.5 | 38.5 | 22.0 | 14.5 | 16.2 | 13.3 | 7.7 | 6.1 |
| 74 | 42.9 | 35.1 | 19.1 | 12.7 | 14.3 | 11.8 | 6.4 | 5.8 |

SOURCE: The U.S. data are based on unpublished data from the Bureau of Labor Statistics. Japanese data are based on the Census of Population for 1970 and 1985.

oriented. The most common type of work is weeding public parks or private gardens. Members are paid by the center, are not employed by the contracting firms, are not covered by unemployment or accident insurance programs, and are not employed by any firm. Given these terms of employment, it is not surprising that these centers typically have more work opportunities than potential participants.[22]

## LABOR FORCE PARTICIPATION RATES

Evidence suggests that the Japanese have a stronger attachment to the labor force than do comparable workers in other developed countries. Table 2–6 presents age-specific labor force participation rates by sex for Japan and the United States. Both countries show declines in participation rates for men between 1970 and the mid-1980s; however, the decline in the U.S. rates is greater than that experienced in Japan.

For the Japanese, the decline with an additional year of age in the proportion of men and women who are in the labor force averages

around three percentage points per year between ages 55 and 74; however, the magnitude of this decline increases with advancing age. Inspection of the data does not reveal any large declines associated with mandatory retirement from a career job (ages 55 to 60) or with becoming eligible for Employees' Pension Insurance benefits (age 60) and National Pension benefits (age 65). By contrast, the U.S. data indicate sharp declines in participation at ages 62 and 65, which are key ages for receipt of social security benefits.[23] These data confirm the greater attachment to the labor force of Japanese workers at older ages and clearly indicate that mandatory retirement for a career job does not result in withdrawal from the labor force.

The actual work rates of the elderly conform to their expressed preferences for continued work. The extent of the desire for continued work by older persons is revealed in a survey by the Economic Planning Agency. This survey found that 78 percent of the respondents wanted to be employed at age 65, and 35 percent of the respondents wanted to continue to work until age 70.[24] Similar findings were reported from a 10-year longitudinal survey of older men in Tokyo. The men were first interviewed in 1975 when they were aged 50 to 54. When reinterviewed in 1985, 92 percent reported having left their career employer, but once retired, 87 percent immediately reentered the labor force. In 1985, 65 percent were still working, with 50 percent continuing at full-time jobs.[25]

The high rates of labor force participation occur despite the high average per capita income in Japan. In a recent study of participation rates in 151 countries, Clark and Anker estimated labor force participation rates of older men and women as a function of a series of socioeconomic variables. Their study showed that after controlling for these variables, the participation rates of elderly Japanese were substantially higher than those predicted by the regression model.[26]

Evidence suggests that workers who remain in the labor force suffer substantial reductions in earnings. A Status Survey of Employment and Life of Workers Reaching Retirement Age conducted by the Ministry of Labor in 1983 found that 30 percent of persons continuing to work after mandatory retirement had earnings reductions of 20 to 39 percent. Another 20 percent of these workers suffered earnings declines of 40 percent or more. The decline in earnings is greatest for persons who were previously employed by large firms.[27] These declines reflect the lower wages of workers who are reemployed by their former employer as well as the lower wages that older persons receive from new employers.

Despite high real income compared to other countries and wage cuts at mandatory retirement from career jobs, older Japanese continue to work. The high proportion of older persons who remain in the labor force does not appear to be due to low pension income (see Chapters 3 to 5).[28] Thus, the key economic factors do not explain the relatively high (by international standards) participation rates by older Japanese. The high work rates appear to be due to cultural and other socioeconomic differences influencing the work and retirement decisions. The current high labor force participation rates may reflect the lifetime experiences of current older Japanese. Persons currently age 65 and older lived through World War II and the postwar reconstruction. Future cohorts, having lived through the more prosperous era, should be more inclined to demand more leisure and retire earlier.[29]

## RETIREMENT POLICIES IN AN AGING SOCIETY

The rapid aging of the Japanese population has caused changes in both public and private retirement policies. The continuing population aging has resulted in large past and projected future increases in expenditures for social security. In response to these cost increases, the benefit formulas of both the Employees' Pension Insurance and National Pension have been reduced. Discusssions are currently under way to raise the age of eligibility for benefits in these programs to further reduce projected cost increases.

In addition to changes in the social security system, the Japanese government has responded to demographic changes by seeking to encourage later retirement, thereby increasing the ratio of workers to retirees. Policies have included subsidies to firms hiring older workers, job placement assistance for unemployed older workers, and encouragement to firms to raise mandatory retirement ages. These efforts support the revealed preference for older Japanese to remain in the labor force. Thus, the response of the government to population aging has been to encourage delayed retirement to reduce the pressure on government spending for old age assistance programs.

The aging of the labor force and increased retirement ages confront Japanese firms with the prospect of rising labor costs. The seniority-based wage system means older workers tend to be more highly paid than younger workers, and this discrepancy increases as the age of retirement is raised. In many firms, retirement benefits are linked to final pay and are a function of years of service. In response to these rising labor costs, firms have begun to reduce the rate of wage increase for senior workers and to limit earnings used to determine

retirement benefits. Pension systems are being altered, and firms are beginning to offer early retirement incentives. The industrial relations system is responding to both the aging of the population and changes in government policy.

This chapter has examined public and private retirement policies and how they have changed during the past 20 years. The aging of the population has produced an economic quandary for the government and for employers. The government is strongly encouraging continued work and the raising of retirement ages. Faced with higher labor costs resulting from an older work force, firms have attempted to revamp employee compensation to lessen the impact of an aging labor force. The following chapters focus directly on public and private retirement systems and how they have developed in conjunction with the aging of the Japanese society.

## ENDNOTES

1. Detailed discussions of the industrial relations system in Japan are provided in Robert Cole, *Japanese Blue Collar: The Changing Tradition* (Berkeley: University of California Press, 1971); and Ronald Dore, *British Factory–Japanese Factory: Origins of National Diversity in Industrial Relations* (Berkeley: University of California Press, 1973). Haruo Shimada, "Perceptions and the Reality of Japanese Industrial Relations," *Keio Economic Studies* no. 2 (1982), pp. 1–21, presents an economic assessment of this traditional view of the Japanese system.

   A detailed description of employee compensation in Japan is presented by Yoshitaka Fujita, *Employee Benefits and Industrial Relations* (Tokyo: Japan Institute of Labor).
2. Masanori Hashimoto and John Raisian, "Employment, Tenure, and Earnings Profiles in Japan and the United States," *American Economic Review,* September 1985, pp. 721–35.
3. For an economic analysis of the bonus system, see Masanori Hashimoto, "Bonus Payments, On-The-Job Training, and Lifetime Employment in Japan," *Journal of Political Economy,* October 1979, pp. 1086–1104.
4. Data are from the Basic Survey of Wage Structure, 1988.
5. Japan Institute of Labor, *Wages and Hours of Work,* Japanese Industrial Relations Series no. 3, p. 16.
6. Japan Institute of Labor, *Japanese Working Life Profile* (Tokyo: Japanese Government, 1987), pp. 24, 73.

7. Fujita, *Employee Benefits and Industrial Relations*, p. 11.
8. For a comparison of the labor markets in the United States and Japan, see R. W. Bednarzik and C. R. Shields, "Comparing U.S. and Japanese Labor Markets," *Monthly Labor Review*, February 1989, pp. 31–42.
9. Japan Institute of Labor, *Japanese Working Life Profile*, pp. 28–29.
10. Ministry of Labor, *Yearbook of Labor Statistics: 1986*, pp. 110–11.
11. Haruo Shimada, *The Japanese Employment System* (Tokyo: Japan Institute of Labor, 1980), p. 16.
12. Kazuo Takada, "Evolving Employment Policies for Older Workers in Japan," in *When "Lifetime Employment" Ends* (Waltham, Mass.: Brandeis University, 1989), pp. 19–20, 26–28.
13. David Barker and Robert Clark, "Mandatory Retirement and Labor Force Participation of Respondents in the Retirement History Study," *Social Security Bulletin*, November 1980, pp. 20–29.
14. Richard Burkhauser and Joseph Quinn, "Is Mandatory Retirement Overrated?" *Journal of Human Resources*, Summer 1983, pp. 337–58.
15. A survey by the Japanese Federation of Employers Association of 410 companies in September 1988 found that 67.5 percent of firms had set mandatory retirement at age 60. *International Benefit Information Service*, March 1989, p. 29.
16. For a more detailed assessment of the participation of older persons around the world, see Robert Clark and Richard Anker, "Labor Force Participation Rates of Older Persons: An International Comparison," International Labour Office, World Employment Programme Research working paper, no. 171, December 1989.
17. Ministry of Labor, *Year Book of Labor Statistics: 1986*, p. 49.
18. Toshi Kii, "Retirement in Japan," in *Retirement in Industrial Societies*, ed. K. S. Markides and C. C. Cowper (New York: John Wiley & Sons, 1987), pp. 231–69. This downward mobility of older workers may start prior to the age of mandatory retirement. Masako Osako, "Downward Mobility as a Form of Phased Retirement in Japan," *Aging International*, December 1988, pp. 19–22, examines the process of reduced job status in Japanese companies. He reports that "preretire-

ment step down" is practiced in nearly half of the companies with 1,000 or more employees.

19. "Japan Expands Programs to Hire the Elderly," *Aging International*, December 1988, p. 7; also see Takada, "Evolving Employment Policies for Older Workers in Japan," for a detailed review of these subsidy programs.
20. Economic Planning Agency, *Economic Management within a Global Context* (Tokyo: 1988), pp. 45–46.
21. Kamata Satoshi, "Life after Retirement," *Japan Echo*, Special Issue 1988, pp. 28–33.
22. Shinya Hoshimo, "The Origins and Operations of Silver Manpower Centers," in *When "Lifetime Employment" Ends* (Waltham, Mass.: Brandeis University, 1989), pp. 41–88, provides a detailed review of silver manpower centers.
23. This point is also made in John McCallum, "Japanese Teinen Taishoku: How Cultural Values Affect Retirement," *Aging of Society*, March 1988, pp. 23–42. He reports declines in participation at the age of pension eligibility in Australia and the United Kingdom.
24. Satoshi, "Life after Retirement," p. 33.
25. "Occupational Mobility Following 'Retirement' in Japan," *Aging International*, December 1988, p. 7.
26. Clark and Anker, "Labor Force Participation Rates of Older Persons: An International Comparison."
27. Ken Sakuma, "Changes in Japanese-Style Labor-Management Relations," *Japanese Economic Studies*, Summer 1988, pp. 27–29.
28. John McCallum, "Japanese Teinen Taishoku."
29. A similar point can be made concerning the current high rate of savings among current older Japanese. Presently, the savings rates for persons over age 65 are only slightly below that for all households. Several researchers have speculated that future older households in Japan will be more like the elderly in other countries and have lower savings rates or actually begin to dissave. "The Silvering of Japan," *The Economist*, October 7, 1989, pp. 81–82.