

Ageing and Employment Policies

Working Better with Age: Japan

Executive summary
and Assessments and recommendations



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Executive summary

Population ageing has occurred much more rapidly than in most other OECD countries. It is therefore encouraging that employment opportunities for older people have risen in Japan, thanks to improving macroeconomic conditions and combined Government and society-wide efforts taken over the past few years. Further increases in employment of older people would help to limit the steep fall in the total labour force that Japanese is projected to face over the next 20-30 years. However, achieving this will not be easy as Japan already has rates of labour force participation for older people that are among the highest of OECD countries, especially for older men.

A number of structural issues continue to undermine efforts to extend working lives in productive and high-quality jobs. These include: the persistent use of traditional human management and wage policies that result in many firms setting a low mandatory retirement age of 60; a dual labour market creating inequalities between groups; and relatively poor quality jobs at both younger and older ages. In particular, further policy responses must address the needs and specific situation of older people namely i) those workers who have benefited from Japan's system of lifetime employment but who face an uncertain transition into retirement after the age of 60; ii) the rising share of non-regular workers outside of the lifetime system; and iii) the situation of many older women who have been involved in non-regular work at younger ages or left the workforce completely.

To promote better and longer working lives, the OECD recommends that Japan should seek to:

- Undertake further reform of the setting of the mandatory retirement age and seniority wages to encourage employers to hire and retain older workers.
- Tackle labour market dualism by reducing the incentives for employers to hire workers using more precarious forms of employment.
- Invest in lifelong learning to support the good foundation skills among older and younger Japanese adults and reduce inequalities in training participation by age, skill and type of employment contract.
- Improve job quality to increase opportunities for workers to continue working at an older age by: tackling excessive hours of work; adequately implementing the *Work Style* reforms; and adopting more systematic and obligatory psychosocial risk assessment of working practices.
- Boost opportunities to combine work and care for children and elderly parents in order to help women to (re-)enter and stay longer in the workforce.

Assessment and recommendations

Japan's population is ageing rapidly and its labour force is shrinking

Rapid population ageing and a shrinking labour force in Japan are major challenges for achieving further increases in its living standards and ensuring the financial sustainability of its public social expenditures. However, with the right policies in place, there is an opportunity to cope with these challenges by extending working lives and making better use of older workers' knowledge and skills.

Population ageing in Japan has progressed more rapidly than in most other countries. Currently, Japan has the highest old-age dependency ratio of all OECD countries, with a ratio in 2017 of over 50 persons aged 65 and over for every 100 persons aged 20 to 64 and this ratio is projected to rise to 79 per hundred in 2050. Japan's working-age population (persons aged 15-64) has already been declining since the late 1990s and this decline is likely to feed through to a considerable decline in the total labour force over the next few decades. If labour force participation rates by age and gender remain unchanged at their 2017 levels, the labour force could contract by 8 million between 2017 and 2030 and by 20 million by 2050. If, instead, a more realistic assumption is made that labour force entry and exit rates by age and gender remain unchanged, the labour force would contract by around 4.5 million by 2030, i.e. 3.5 million less than if participation rates remain unchanged. This decline in the labour force could be further reduced to a fall of around 2.4 million if older men and women delay their effective age of retirement by 1.1 and 0.7 years, respectively.

However, achieving further increases in the active participation of older Japanese in the labour market will not be easy as they already have rates of participation that are among the highest of OECD countries, especially for older men. There is more scope to increase these rates for older Japanese women but this will also require action to increase their participation at younger ages as well. The policy responses required by Japan will depend on the specific situation of older people with respect to the labour market. Three groups stand out: i) those workers who have benefited from Japan's system of lifetime employment but who face an uncertain transition into retirement after the age of 60; ii) the rising share of non-regular workers outside of the lifetime system; and iii) the situation of many older women who have been involved in non-regular work at younger ages or left the workforce completely. Each of these groups faces different barriers to continuing to work at an older age that must be addressed.

Older workers in Japan have diverse needs requiring tailored policy responses

Japan's lifetime employment system has contributed to stable employment patterns for men during their prime working years but it is coming under strain and contributes to a difficult transition to retirement. Under this system, large corporations typically hire graduates to work as generalists across different jobs with the promise of seniority-based

wage increases until workers are in their 50s and guaranteed employment until the mandatory retirement age of 60.

This system has been considered to contribute to the productivity of companies and their competitiveness. Companies acquire company-specific skills by investing in their workers from a long-term perspective and they gain from high-levels of motivation by their workers who will see their wages rise the longer they stay with the company (i.e. with seniority).

However, the effectiveness of this system has been eroded because of structural changes in the economy which are making it harder for companies to guarantee a job for life. Moreover, following mandatory retirement, workers often face large wage cuts even when re-hired, usually as non-regular workers, and their skills may be underutilised. This can undermine their productivity and well-being.

At the same time, there has been a trend increase in non-regular jobs, with close to two-fifth of the Japanese workforce employed in non-regular positions in 2018, up from less than one-fifth two decades ago. This has meant that many workers find themselves in irregular jobs that are typically paid less than full-time regular employees, offer limited access to training and lack proper social security protection. Consequently, their employability is weakened in terms of opportunities for career progression and to remain longer in employment at an older age as well as undermining their old-age pension entitlements.

Far more Japanese women than men work in non-regular jobs. Many women who leave the labour market to have children find they can return only to a non-regular job, with a junior, part-time position. A life cycle approach to policy reform is needed that would specifically benefit women, such as better provision of child-care facilities and tackling labour market dualism (i.e. the separation between regular and non-regular employment). This would encourage women to (re-)enter and stay longer in the workforce.

Traditional employment practices continue to undermine efforts to extend working lives in productive high-quality jobs

In response to rapid population ageing and the projected decline in the labour force, the Japanese government has introduced over the past decade numerous policies and practices to extend working lives and delay retirement. These efforts have largely focused on reforms of the mandatory retirement age and the seniority-wage system but the effectiveness of these reforms has so far been limited.

The revised act on the Stabilisation of Employment of Older Persons (2004), which is the key legislative tool used by the government to delay the retirement of older workers in the country, requires firms to: i) re-hire older workers who wish to continue working after 60 which is the typical mandatory retirement age (MRA); ii) extend mandatory retirement age to 65; or iii) abolish the mandatory retirement system. These reforms have led to a rise in employment rates of older workers over the past decades. However, this effect has been achieved at the expense of working conditions, including cuts in wages and other compensation of older workers who have reached the age of mandatory retirement. Few companies have opted for the second and the third options reflecting steep seniority-based wage profiles and the cost of dismissing regular workers.

Recent Government announcements to increase the re-hiring of older workers to age 70 would be an important step towards obliging employers to retain older workers as

well as giving more choice to older workers who wish to continue working. However these changes do not address the longstanding issues of job quality for some older workers who risk being trapped in poor quality jobs for a longer period of time and as a result may leave the labour market altogether. Any further amendments to the legislation concerning employment of older workers should be accompanied by adequate implementation of the work-style reforms that pursue the equal-pay principle under which workers are treated equally in terms of monetary and non-monetary conditions irrespective of their contract status if they are engaged in the same work.

Further action is needed to reform the mandatory retirement age that remains at 60 as a way to end age discrimination against older workers and to make best use of their considerable skills and competencies acquired during their working lives. In the short-run, the government should seek to increase the mandatory retirement age which can be phased in progressively every two years. In the long-term, the government should consider abolishing the mandatory retirement age altogether as done in other OECD countries such as Australia, Canada, New Zealand and United States. Raising or abolishing age would also be in step with recent proposals by the Fiscal System Council in the Ministry of Finance on raising the pensionable age, which are welcome. The government should accelerate these discussions given that population ageing is already much more advanced in Japan than in other countries.

However, unless wage systems are reformed, employers will continue to resist raising the mandatory retirement age. One of the biggest difficulties in hiring older workers arises from their high wages due to the seniority-based wage and promotion system relative to their actual productivity. Job performance and competency based pay systems are on the rise, but assessing performance and capacities of older workers is still not well developed. Since 2017, the Ministry of Health, Labour and Welfare offers a subsidy to small and medium enterprises to support their efforts to modify their pay regimes. This initiative is welcome, but could suffer from low-take up as it lacks visibility among employers. Similarly, the Japan Organization for Employment of the Elderly and Persons with Disabilities and Job Seekers (JEED) provides recommendations on the broader contents of personnel reform but has limited contact with employers. The implementation of such measures is likely to remain quite challenging as it would imply a fundamental change in the Japanese employment and labour management approaches. The authorities can give an example in public-sector wage-setting arrangements by introducing performance pay and limiting automatic rises in salary with tenure and encourage the social partners in the private sector to follow their example.

The above reforms also need to go hand in hand with changes to the employment protection rules for workers. The relatively restrictive interpretations by courts on unfair and collective dismissals of permanent workers make it very difficult for employers to dismiss regular workers on economic grounds. As a result, they seek to obtain some flexibility in workforce adjustments by relying on the mandatory retirement age to shift older workers to other duties or, eventually, into retirement, and by hiring non-regular workers.

Finally, as in other OECD countries, employers in Japan face a significant challenge in creating an inclusive age-diverse culture where all workers feel comfortable and appreciated by management and their peers regardless of their age. Nevertheless, policies to combat negative attitudes towards older workers and promote age diversity are rare. Greater efforts are needed by all stakeholders to combat barriers to retain workers in good quality and productive jobs.

The following policy action should be considered:

- Gradually *increase the mandatory retirement age* as this will reduce the risk that older workers are re-hired as non-regular workers. In the long-term, consider abolishing the retirement age as has occurred in other OECD countries.
- Ensure further amendments to the legislation concerning employment of older workers are combined with adequate implementation of the work-style reforms that *pursue the equal-pay principle to reduce the risk that older workers are transferred into poor quality and low productive jobs*.
- *Tackle labour market segmentation* between regular and non-regular workers through a comprehensive strategy to lower employment protection for regular workers, in part by setting clear rules for the dismissal of workers, and to expand social insurance coverage and training programmes for non-regular workers. This would reduce the incentive for employers to have recourse to precarious forms of employment and to switch the status of older workers from regular workers to non-regular workers after reaching the mandatory age of retirement.
- *Evaluate the effectiveness of the new subsidy system to support SMEs to reform their seniority-wage system* and abolish or reform as necessary.
- *Promote government services on advising firms on broader contents of personnel reform and wage design* in a more systematic and co-ordinated fashion. In particular, Hello Work should promote the HRM advisory services provided by JEED.
- *Facilitate labour mobility in mid-career by removing the kink in tax deductions on retirement allowances at 20 years of tenure*. Currently, these tax deductions rise disproportionately after 20 years of tenure discouraging them to change their employers before this limit.
- *Set up a tripartite body including social partners and the government at a national level for promoting better workplace practices* (especially age management and reforming wage setting). This would help to seek consensus on ways forward to reform the seniority pay system as well as exchange best practice among employers on their policies on age diversity.
- *Complement age discrimination measures with other initiatives to promote age diversity*, such as positive and affirmative action.

Investing in skills is critical to improve productivity and respond to labour market changes

Adapting and upgrading the skills of older workers as well as making the best use of their skills represent a major challenge for Japan. It would help to overcome labour shortages, increase productivity and ensure workers have the right skills for an increasingly digital and globalised labour market. However, it requires not only good management and work organisation practices at the workplace, but also a focus on strengthening learning and training opportunities throughout working careers.

In comparisons with other OECD countries, Japanese older adults have strong literacy and numeracy skills but weak problem-solving skills in a technology-rich environment. The proportion of both younger and older Japanese with a university-level education is

quite low. There is also some evidence of a large decline with age in the literacy and numeracy skills of Japanese people.

The job prospects of older workers not only depend on the skills they have acquired early on in their lives but also on the extent to which they have kept these skills up to date over their careers and obtained new ones. The evidence on training participation suggests that Japan's system of lifelong learning is less well developed than in many other OECD countries, especially with respect to off-the-job training (OFF-JT). In Japan, the participation of both prime-age and older workers in job-related training is among the lowest OECD countries. As elsewhere, participation in further training decreases with age and is lower for older low-skilled workers. But the gap in training between workers on temporary contracts and those on permanent ones is substantial in Japan compared with other OECD countries.

One major obstacle to training over the lifecycle is that in many cases training needs are not identified. Some Japanese firms provide mid-career interviews and counselling but their focus remains on future employment and pay options after reaching a certain age instead of identifying training needs and gaps to help promote job mobility within and across firms. The government has taken several small steps in recent years to encourage firms to assess training needs of their workers including a subsidy to employers who introduce mechanisms that provide employees with opportunities for career consultations and access to certified career consultant agencies. Further steps are needed to incentivise employers to invest in lifelong learning, for instance, with individual learning accounts and payroll levies on employers as done in several OECD countries, and establishing sectoral or multi-sectoral training funds by employers.

In a fast changing and more flexible world of work, it is crucial to develop effective tools for measuring and recognising the skills and competencies that workers acquire throughout their careers. In 1959, Japan introduced the National Skills Test, a skills assessment system to test and certify skills that workers have acquired through formal (but not certified) or non-formal learning. According to the experience of the public employment service *Hello Work*, having certified skills is an important factor to make well-matched job placements. Moreover, the national Skills test system can serve as an important instrument to ensure that the skills of older workers are fully used when they change jobs. But there is room for improvement in terms of helping individuals prepare better for passing the test, as failure rates are high (60%).

While the above measures are critical for Japan to keep older workers employable and help them to stay in their jobs longer, some older workers will face job loss as a result of current retirement rules and human resource strategies of companies. Public and local employment services and initiatives have an important role to play in helping such older workers to make successful employment transitions as well as the many workers who begin a second career after retiring from their main job.

Hello Work (Japan's Public Employment Service) provides special counselling and guidance and job placement services for older job seekers aged 55 and above and for those aged 65 and above. Even with Hello Work's help, more can be done to improve job matching and placement for this group. On one hand, older jobseekers are often steered towards occupations of low quality for which there are shortages and which younger workers show little interest. On the other hand, Hello Work counsellors find it difficult to change the negative attitude of some older jobseekers to new jobs.

Among other factors, age related stigma and lack of information on employment related barriers may reduce the quality of job matches for older jobseekers. For instance, while there are benefits of having specialised caseworkers to support the older unemployed, there is a risk such specialisation can reinforce stereotypes. In this case, Hello Work could compliment caseworker's judgement often steered by qualitative guidelines with more data-intensive approaches. More generally, additional information such as skills deficiencies, health problems or care responsibilities should be collected regularly to better understand the complex and inter-related employment barriers facing older workers.

Some municipalities also promote employment of older people through job creation programmes, guidance or training programmes. In addition, Silver Human Resource Centres (SHRC) have been active since the 1970s to provide community-based temporary and short-term job opportunities for older workers who are in general retired. In, 2015, there were 1 272 centres with approximately 720 000 members. The role of SHRCs is highly valuable for the social integration of retirees but they are not always covered by a labour contract when work is found for them. This means that sometimes they can be paid below the minimum wage despite guidelines not to do so.

More could be done to improve the employability of older people and their ability to remain longer in work in high quality jobs. The following policy actions should be considered:

- *Raise awareness among employers about the value of experience and productivity of older workers* as in other OECD countries. This would also include raising awareness of the importance of work organisation and the learning environment.
- *Encourage firms to do more to identify training needs of mid-career and older workers* through mid-career interviews and as part of regular performance reviews.
- *Strengthen JEED's role in providing firms with lifelong learning counselling combined with other age management tools* in order to promote training activities for those aged 45 and above.
- *Improve information on current and future skills needs* through regular skills assessment and anticipation exercises at company, industry, local and national levels.
- *Develop further the recognition and certification system of prior learning acquired at work as well as a qualifications framework.* This would help to standardise training and make it more transferable between companies for workers of all ages. A qualification framework would help achieve this and both actions should be carried out in partnership with employer and worker representatives.
- *Make the Job Card obligatory for employers when requested by employees at the time of mandatory retirement.* This will allow for recognition of skills and experiences and as a result improve their transition of older workers to better matched jobs.
- *Set stronger incentives for employers to invest in training and to include social partners for the implementation of a lifelong learning strategy.* In particular, small and medium-sized enterprises (SMEs) have few resources for workforce

development and lack instruments to identify their skills needs. Thus, government support for training, in particular of non-regular workers and targeted at SMEs, should be leveraged up.

- *Provide training in transversal skills irrespective of age.* This includes investing in ICT skills as well as in soft skills for all age groups.
- *Strengthen training in entrepreneurship.* This would help to promote entrepreneurship as an alternative employment opportunity for older workers through targeted courses for them. Ideally, it would start early on with entrepreneurship education provided in schools and universities.
- *Build a statistical profiling tool to help caseworkers at Hello Work diagnose employability of jobseekers,* and to assist in prescribing the type, intensity and duration of services needed to get them back to work in a more systematic way and overcome any age stereotypes.
- *Develop a comprehensive assessment of potential employment barriers* including detailed information on people's skills, work history, health status, household circumstances and incomes as recommended in the OECD Project on Faces of Joblessness. This would contribute to a better match between individual needs of older workers and available support to help them make successful job transitions.
- *Hello Work should strengthen efforts to reach out to older workers at or above the mandatory retirement age and provide career counselling*
- *Hello Work should provide training to unemployed older workers to help them perform more demanding jobs if they so wish and not just to facilitate a move to a new job with lower skill requirements than their former jobs.*
- *Develop a closer and more coordinated cooperation between the various actors involved in finding work for older people, including Hello Work, Silver Human Resource Centres and Municipalities.* This would help to avoid duplication of effort and develop a clear definition of the role of each of the stakeholders. In this sense, the Silver Human Resource Centres should focus on the social integration of older workers but it must offer jobs with guaranteed minimum pay and working conditions.

Poor quality jobs and working conditions undermine reforms to lengthen working lives

Job quality is an important determinant of well-being for older workers, just as it is for younger workers, and plays an important role in their decisions of whether to continue working or to take up work. By international standards, the quality of working conditions as measured by job strain (the difference between job demands and job resources) is poor on average in Japan compared with some other advanced OECD countries. This reflects excessive work hours for many Japanese workers as well as a lack of autonomy and support from colleagues. The consequences for mental health in particular can be severe. Many older workers also face a substantial pay cut following mandatory retirement and may end up being rehired in jobs that do not fully utilise their skills, which undermines their job satisfaction, motivation and well-being. Poor working conditions may thus be deterring some older people from working longer and may be preventing some women,

especially mothers, from entering employment at younger ages and pursuing longer work careers.

A number of policy initiatives have been taken in recent years to address these challenges. An important legislative reform package (Work Style Reform) seeks to reduce overtime. There is consensus both among social partners and across the political spectrum about achieving this objective. However, firms that exceed the new overtime limits are not subject to substantial fines and more generous limits are available, subject to certain conditions, if there is a workplace agreement. Moreover, skilled professional workers with high wages can be exempted altogether from the overtime regulations. Thus, it remains to be seen whether the government's strategy of changing social norms mainly through guidance and recommendations is successful.

Mental health is an important challenge. Although a five-year research project is underway involving detailed investigations of specific occupations, there is no overall survey of working conditions that is regularly conducted. The Stress Test, which is used to monitor and improve working conditions and reduce stress in companies is a useful instrument, but there should be a more systematic follow-up of actions that companies have taken in response to the results of the test. The number, role and scope of the work of "industrial doctors" should be strengthened. More generally, while employer and worker representatives focus their discussions of working conditions on wages and hours, little attention is devoted to other dimensions of job quality.

Improving opportunities to combine work and care for children and elderly parents is a highly important and pressing policy challenge. The issue has received some attention recently and is addressed in the discussion on the Work Style Reform. The government should tackle the factors discouraging female labour participation by: enhancing the availability of high-quality childcare; reforming the tax and benefit system to remove disincentives to work for secondary earners; and improving work-life balance, notably by reducing long working hours and increasing working-time flexibility, in part by better enforcing the Childcare and Family Care Leave Law.

Thus, there are a number of areas where more could be done to improve job quality for older workers and to increase opportunities for them to continue working at an older age. This includes: tackling labour market segmentation between regular and non-regular workers; tackling excessive hours of work; better age management practices to utilise more fully the skills and abilities of older workers and improve work-life balance; and greater opportunities for self-employment. More generally, better data are needed on working conditions in Japan to provide the evidence base to guide effective policies.

Action on all of these fronts will require a coordinated approach from the government, employers and worker representatives as well as civil society representing older people. The following policy actions should be considered:

- *Monitor closely how firms are changing their working-time practices* as a follow-up to the revised regulations to tackle excessive working hours. If the situation does not improve much, the government should consider taking additional measures, such as a stricter cap and higher penalty wages for overtime work.
- *Monitor closely how the scheme which exempts skilled professional workers with high wages from overtime regulation is being implemented.* This should be carried out by the government at the individual workplace level in terms of working time, health status and compensation.

- Consider introducing interval-time regulation (i.e. rest periods between periods of work) that would be applicable to all workers.
- For a better implementation of the stress check scheme, *ensure closer cooperation and coordination between management and industrial physicians as well as with other health professionals* such as psychologists to follow-up results of the stress test.
- *Improve data on working conditions* to identify the links between work and health. The European Working Conditions Survey provides a possible model for the type of data that should be collected.
- Inspired by good practice in other OECD countries, *develop a more joined-up strategy to promoting healthier working conditions* through a range of preventative measures such as a more systematic and obligatory psychosocial risk assessment of working practices. This could include more extensive use of financial incentives such as experience-rating of accident, sickness and disability insurance premiums paid by employers.
- *Strengthen the role of labour inspectors to improve working conditions*, drawing on international best practice, which would include an advisory role in addition to their compliance role.
- To promote more effectively equal pay for equal work, especially for older workers switching status from regular to non-regular workers following mandatory retirement, the government should *require firms to provide more detailed job descriptions*. The government could be a role model of personnel management for private firms by developing a new personnel system for public officers.
- As a follow-up to the important revisions in the Child Care and Family Care Leave Act in 2017, further efforts should be undertaken by the government to *promote awareness and use of nursing-care leave entitlements* among companies and workers. Take-up should be strengthened through incentives to workers and employers.
- Employers, in cooperation with worker representatives, should be encouraged to *develop and share best practice in adopting age-management practices* that utilise more fully the skills and abilities of older workers and provide workers at all ages with the flexibility in working-time arrangements required for a good work-life balance.
- The government in cooperation with employers and civil society should take action to *promote self-employment, including social entrepreneurship*, as an attractive pathway to working longer for older people as well as to open up greater employment opportunities for women at all ages.