

Preventing Ageing Unequally

How does JAPAN compare?



How will future retirees fare? The OECD report *Preventing Ageing Unequally* examines how the two global mega-trends of population ageing and rising inequalities have been developing and interacting, both within and across generations. Taking a life-course perspective the report shows how inequalities in education, health, employment and income interact, resulting in large lifetime differences across different groups. Drawing on good practices in OECD countries, it suggests a policy agenda to **prevent** inequality before it cumulates; **mitigate** entrenched inequalities; and **cope** with inequality at older ages. The report points to strong policy complementarities and synergies and thus a whole-of-government approach is likely to be much more effective than a series of separate inequality reducing policies. In particular, to ensure a better retirement for all, policies have to be coordinated across family, education, employment, social ministries and agencies

Overview – Old-age poverty risks are already high

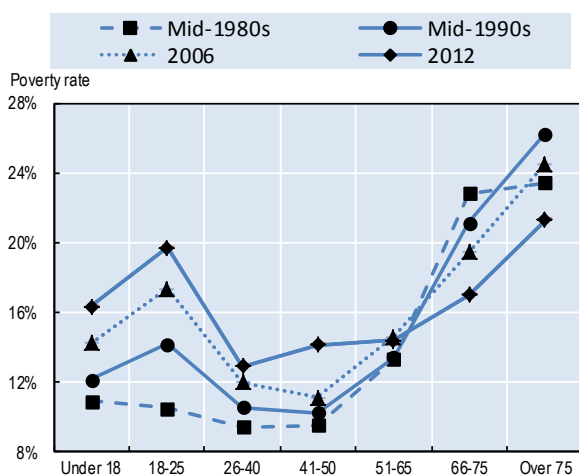
Old-age poverty is a serious concern in Japan, in particular among those older than 75 years. Moreover, income inequality among the over 65 is much higher than the OECD on average. While the poverty rate of this age group has declined since the mid-1990s, the scale of the challenge remains large as Japan is and will remain the oldest OECD country. The share of people older than 80 years has increased from 4% to 8% since 2000, and will more than double by 2050, reaching 16.5% compared to an OECD average of 9.5%.

Old-age poverty risks are caused by a range of factors: low participation of women in the labour market, low levels of pension benefits and women living longer lives alone. In addition, poverty risks have shifted from older to younger groups in Japan.

Poverty rates have increased for all age groups younger than 50 years since the mid-1980s and doubled for those 18-25 due to the

Poverty risks in old-age remains high

Shift of poverty risks across generations at different ages in Japan



Notes: Poverty rates are defined at half the median-equivalised income.

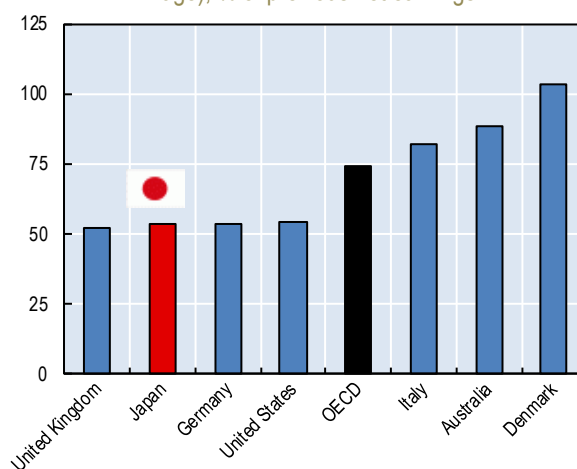
Source OECD Income Distribution Database. See [\[Figure 3.9\]](#).

increase of non-standard labour contracts that pay much less than regular contracts and offer limited career development. This shift suggests that vulnerabilities have been building up substantially in Japan for people who will retire in the forthcoming decades.

Even for full-career workers, the net projected pension replacement rate for low earners is close to 50%, much lower than the OECD average. In addition, career interruptions have a larger impact on pension levels than in many other OECD countries. Low-income workers and those with intermittent careers are therefore exposed to a particularly high risk of old-age poverty. Longer lives compound this risk as pensions are indexed to prices from age 68.

Low pension levels for low earners in Japan

Net pension replacement rates for low earners (50% of average wage), % of previous net earnings



Source: OECD pension models in OECD Pensions at a Glance. See [\[Figure 5.19\]](#).

Moreover, older women are particularly vulnerable. In Japan, the gender gap in life expectancy at 65 is about 5 years, the highest level in the OECD with an average of 3.3 years. Poverty rates of older women are higher than men. About one in four women over the age of 75 is below the poverty line against about one in seven in the OECD on average.

Higher female employment rates and longer working hours for women would greatly contribute to reducing economic difficulties in old age. To meet this goal, Japan needs to help parents balance work and family responsibilities and enable mothers to return to quality jobs which enable them to build up individual pension entitlements.

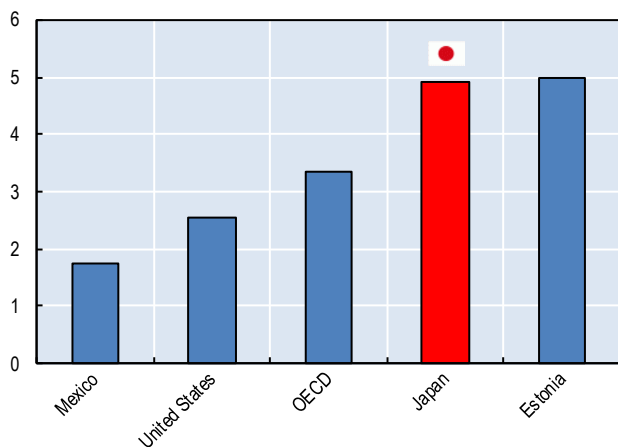
Employment rates of all age groups above 55 years are much higher than the OECD average. Better health conditions at older ages in Japan enhance the participation of older workers. In addition, employers often help older workers transition into a

second career once they reach retirement age. Although the normal retirement age was 60 in the past, the government has required employers to secure the employment of older workers until 65 years-old, and 83% of men aged 55-64 are currently employed against 68% of the OECD average.

Japan is also better prepared than many other OECD countries for rising old-age dependency. Japan has a universal health care and long-term care (LTC) system, which secures equal access and affordability to care. LTC insurance covers most of the LTC costs.

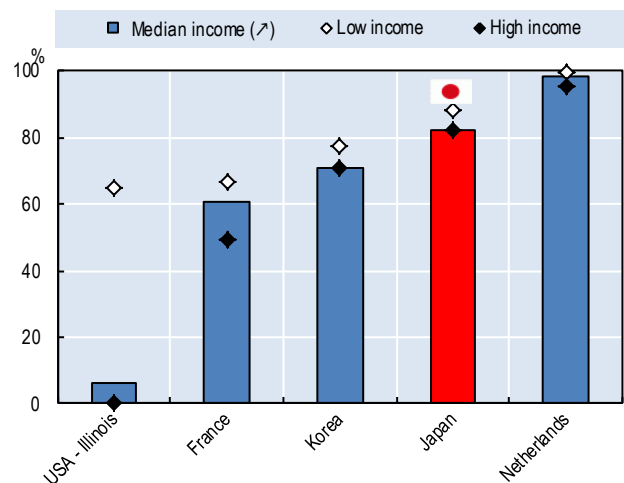
However, having the highest level of government debt in the OECD and facing higher projected health and LTC expenditures due to ageing, Japan faces large challenges to maintain a financially sustainable system while ensuring affordability of care, especially for low-income people.

Japanese women have the highest level of life expectancy Gender gap in life expectancy at 65, years



Source: United Nations (2015). See [Figure 3.2].

LTC insurance covers most of the LTC costs Proportion of LTC costs covered by social protection system



Note: Low income refers to the 20th percentile, high income to the 80th. The term "moderate needs" in the figure heading denotes 22½ hours of care weekly. It is assumed that the person does not have assets that they can use to pay for care. Source: Muir, T. (2017), "Measuring Social Protection for Long-term Care", OECD Health Working Papers, No. 93. See [Figure 6.18].

Given the extent of ageing, one of the key challenges for Japan is therefore to improve job quality, employment conditions of workers in non-standard contracts and participation of workers older than 65 or even 70 years, and especially bring more women into the labour market and help them remain even after becoming mothers, both to secure adequate income through the life course and ensure the financial sustainability of the pension system in a rapidly ageing society.