

OECD THEMATIC FOLLOW-UP REVIEW OF POLICIES TO IMPROVE LABOUR MARKET PROSPECTS FOR OLDER WORKERS

JAPAN (situation mid-2012)

In 2011, the employment rate for the population aged 50-64 in Japan was 0.8 percentage points higher than in 2005 and 8.5 percentage points above the OECD average. Further statistical information about the labour market situation for older workers in Japan is presented in the scoreboard in Table 1.

A major multi-country OECD review of employment policies to address ageing took place during 2003-05 and was summarised in the OECD synthesis report *Live Longer, Work Longer*, published in 2006. That report put forward an agenda for reform, consisting of three broad areas where policy action was seen as necessary to encourage work at an older age:

- strengthening financial incentives to carry on working
- tackling employment barriers on the side of employers
- improving the employability of older workers

One of the main purposes of this follow-up review is to take stock of the progress OECD countries have made in implementing this reform agenda. In the third quarter of 2011, a questionnaire was sent to all member countries, seeking information on the measures and reforms carried out since 2006. For each of the 21 countries¹ that had participated in the original review, the questionnaire was adapted to refer to the OECD's specific policy recommendations in each corresponding country report.

The main actions taken in Japan since 2005 are described in this Note. A summary assessment of the extent to which Japan has followed the OECD's recommendations in the report *Ageing and Employment Policies: Japan* is given in Table 2.

¹ Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Korea, Luxembourg, Netherlands, Norway, Spain, Sweden, Switzerland, United Kingdom, United States. For further information, see www.oecd.org/els/employment/olderworkers.

A. STRENGTHENING FINANCIAL INCENTIVES TO CARRY ON WORKING

A.1. OECD recommendations to Japan in 2004 – action taken

Reconsider specific provisions of the pension system

The way in which pension benefits are adjusted when a retiree aged 60-64 remains employed was revised in 2005. Before the revision, pension benefits were reduced to 80% if a retiree in that age bracket received any wages, and there could be further reductions depending on wage increases. The 80% reduction was abolished because it was found to discourage older persons from continuing to work. The revision makes it possible for older workers aged 60-64 to receive the full amount of pension benefits if their total monthly income from both wages and pension benefits is JPY 280 000 or less. If their total monthly income is between JPY 280 001 and JPY 480 000, their pension benefits are only partially reduced in proportion to their income.

From 2007, it became possible to defer receipt of elderly employees' pension benefits until they reach 65 or older; in this case, additional pension benefits are paid on top of the employees' pension.

Review pension rights for women

Labour market participation in Japan is to some degree related to gender. A relatively high share of women works part-time. Changes in legislation were adopted in 2005 to improve the possibilities for mothers with small children to gain pension rights. The maximum period permitted for women to be out of paid work for childcare and still receive pension credits is extended from one to three years. The pension is based on the standard monthly remuneration the month before leave started.

Because of lower female participation in the labour force, there is a considerable gap in the amount of pension benefit received by men and women. Because of the increase in divorce among middle-aged and elderly couples who have been married a relatively long time, older divorced women have fallen into poverty. Laws have therefore been adopted about sharing of pensions or pension rights; these apply to divorces from 2007 and later. Employees' pension premiums accumulated during the marriage may be divided into two halves when the divorced couple agrees to do so, or by a court decision. Each share may be up to 50% of the sum of premiums contributed by both husband and wife during their marriage.

A.2. OECD recommendations to Japan in 2004 – no action taken

Review the system of the Employment Continuation Benefit

Operation of this benefit should be carefully reviewed and evaluated, especially earnings test for working pensioners aged 60-64.

B. TACKLING EMPLOYMENT BARRIERS ON THE SIDE OF EMPLOYERS

B.1. OECD recommendations to Japan in 2004 – action taken

Further restrict the use of mandatory retirement

The mandatory retirement age stipulated by law in Japan is 60 or over. The mandatory retirement system will be maintained for the time being, because it is the common employment practice and is known to be beneficial for securing jobs for employees until they reach 60. Nonetheless, changes were made to the law

Stabilisation of Employment of Older Persons and entered into force in 2006. The aim is to improve the opportunities for older workers to continue their career until at least pensionable age (65) by removing employment barriers facing older workers who hope to keep on working and are able to do so. Under the revised law, employers who have a policy of mandatory retirement at an age lower than 65 are obliged to raise or abolish that retirement age, or to introduce a continuous employment system that makes it possible for older workers who reach their retirement age to keep working until at least 65; the contract for this work differs from that covering work prior to retirement age. In addition, when a system for continuous employment is introduced in an enterprise, the standard for treatment of older persons can be decided through a formal labour-management agreement.

Review employment protection legislation

Judicial precedent regarding dismissals was codified in the Labour Standards Act in 2003 and the rule was taken up in the Labour Contract Law, enacted in 2007. This is civil law so the validity of dismissals is ultimately decided in the court, based on stipulation of the law. The outcome of cases tried in the court will serve to indicate whether the legislation is functioning. The administration has attempted to make the law universally known, in order to prevent inappropriate dismissals. Standardising this judicial precedent into general law will be useful for preventing disputes over dismissals.

Strengthen measures to combat age discrimination

Even though measures were taken to increase the retirement age and to relax age limits in recruitment, job offers nonetheless still often had age ceilings. To allow all workers equal opportunities irrespective of age, the Employment Countermeasures Act was revised in 2007, and age limits are generally now prohibited.

B.2. OECD recommendations to Japan in 2004 – no action taken

Encourage reform of the seniority wage system

The government should support current efforts of the social partners to reform wage-setting practices based on seniority, by developing guidelines for augmenting the role of competence and performance in pay determination. It could also set an example by applying these guidelines in the civil service.

Rationalise further the system of wage subsidies for older workers

The system of wage subsidies should be carefully evaluated to determine both their effectiveness and whether they could be better targeted to help the more disadvantaged groups among older people. Restricting the use of mandatory retirement would further encourage the social partners to change the wage system.

C. IMPROVING THE EMPLOYABILITY OF OLDER WORKERS

C.1. OECD recommendations to Japan in 2004 – action taken

Enhance financial incentives for the re-employment of older jobseekers

To stimulate employers to hire middle-aged and older unemployed people, a trial employment bounty was introduced in 2003. The employer is paid a subsidy and gives older workers the possibility to show that they are capable of performing in line with the requirements of the job. The aim is to create a steppingstone to regular employment. In 2010, 78% of the middle-aged and older workers engaged in the trial employment switched to regular employment.

Provide better arrangements for non-regular forms of work

A revision of the part-time labour law was passed in 2008 to promote changes of status of part-time workers to regular workers. Employers are obliged to explain working conditions – including wage increases, retirement allowances and bonuses and to prove conformity with what is stipulated in the Labour Standards Act, by issuing a document. The aim of the revision was an improved working environment where part-time workers can use their abilities more effectively. In addition to revised rules to ensure equal and fair treatment of part-time workers and adequate working conditions for them, subsidies are offered to employers to improve the employment management of part-time workers. According to the Survey on “Part-Time Workers: Situation after the Enforcement of the Revised Part-Time Workers Act in 2010” by the Japan Institutes for Labour Policy and Training, 62.6% of employers took measures to improve employment management following enforcement of the revised act.

After the financial crisis in 2008 the number of dismissals increased, which has opened a discussion on the conditions for fixed-term employment contracts. The focus has been on problems such as instability of employment, disparities in treatment and insufficient training. The discussion does not really touch on older workers. But as more atypical labour schemes are the only alternative for many of the older jobseekers, appropriate regulations regarding fixed-term employment contracts will also be to the benefit of these workers. The general rule of fixed-term contracts was discussed in the Labour Policy Council in 2010 and the discussion concluded in 2011. Based on the discussions, in 2012 the government submitted an amendment to the Labour Contract Act that stipulates that a fixed-term employment contract should be an open-ended contract if the contract based on an employee’s application is renewed repeatedly for more than five years (as of 4 July 2012).

The rules exempting unemployed people from contributions to the pension system was changed, and through revisions in 2009 and 2010 the eligibility criteria for employment insurance coverage have been relaxed by shortening the required period of employment. It is estimated that more than 2.2 million additional people are covered. The revisions are mainly aimed at reducing poverty, but better access to the social security system may also encourage work. Increased opportunities to accrue pension rights above the minimum level may motivate groups of older people to work longer.

Lower working hours and improve working conditions

Diversification of lifestyles is also progressing in Japanese society, increasing the need to also diversify working hours, including those of older workers. The government consequently enacted a law and guideline that encourage employers to give sufficient consideration to their workers’ health and life situation when they decide working hours and holidays. Enterprises introducing part-time systems for regular workers are offered a subsidy, introduced in 2006. A website providing information about the part-time regular workers system, and examples of firms that have introduced such systems, were established in 2008. A survey from 2011 indicates that 20.5% of firms introduced part-time work systems for regular workers, an increase from 8.6% in 2005. Statistics also show that the share of older workers working long hours – 49 and more per week – has decreased. Still, 10.8% of workers above the age of 50 worked 49-59 hours in 2010, and 8.2% worked 60 hours and more.

C.2. OECD recommendations to Japan in 2004 – no action taken

Strengthen and expand training opportunities for mid-career and older workers

The OECD recommended boosting the number of well-designed modular courses for adult and older workers that build upon the existing qualifications of these workers. The designated courses of the education and training benefit should be reconsidered to improve take-up among older people.

Continue to improve the quality of PES

The quality of placement services and career consultation services needs to be strengthened. Job placement services for older jobseekers with special needs are offered by the central government in cooperation with local governments; the government should promote and expand these services further. In the future, the possibility for some sub-contracting out to private and non-profit employment agencies of placement services of older jobseekers with special needs should be considered.

Table 1. Older workers scoreboard, 2001, 2005 and 2011

	Japan			OECD ^h		
	2001	2005	2011	2001	2005	2011
Employment						
-- Employment rate, 50-64 (% of the age group)	69.0	68.9	69.7	55.6	58.4	61.2
<i>of which</i> 50-54	79.3	79.6	81.1	71.8	73.7	76.1
55-59	72.7	73.8	75.1	55.9	59.9	64.8
60-64	50.7	52.0	57.3	32.5	35.6	40.0
-- Employment rate, 55-64 (% of the age group)	62.0	63.9	65.1	44.9	49.0	52.9
-- Employment rate, 65-69 (% of the age group)	34.3	33.8	36.1	15.2	16.5	18.5
Job quality						
-- Incidence of part-time work, 55-64 (% of total employment)	19.6	20.6	23.6	17.2	17.2	18.7
-- Incidence of temporary work, 55-64 (% employees)	13.7	15.2	15.7	9.0	9.1	9.1
-- Full-time ^a earnings, 55-59 relative to 25-29 (ratio)	1.48	1.51	1.47	1.32	1.33	1.34
Dynamics						
-- Retention rate ^b , after 60 (% of employees <i>t-5</i>)	-	-	-	37.8	40.4	42.2
-- Hiring rate ^c , 55-64 (% of employees <i>t-1</i>)	-	-	-	7.8	9.2	8.5
-- Effective labour force exit age ^d (years) Men	69.8	69.3	69.3	63.1	63.3	63.9
Women	66.0	66.3	66.7	61.1	62.0	62.8
Unemployment						
-- Unemployment rate, 55-64 (% of the labour force)	5.7	4.1	4.4	4.6	4.8	5.8
-- Incidence of long-term ^e unemployment, 55+ (% of total unemployment)	40.3	43.1	42.6	46.8	47.7	45.9
Employability						
-- Share of 55-64 with tertiary education ^f (% of the age group)	15.1	21.7	29.0	15.9	19.9	22.9
-- Participation in training ^g , 55-64						
Absolute (% of all employed in the age group)	-	-	-	6.6	8.2	9.4
Relative to employed persons aged 25-54 (ratio)	-	-	-	0.44	0.52	0.57

-- unavailable.

a) Mean gross hourly earnings, 2000, 2005 and 2010.

b) All employees currently aged 60-64 with tenure of five years or more as a percentage of all employees aged 55-59 5-years previously.

c) Percentage of employees aged 55-64 with a job tenure of less than one year.

d) 2001, 2005 and 2011. Effective exit age over the five-year periods 1996-2001, 2000-2005 and 2006-2011. The effective exit age (also called the effective age of retirement) is calculated as a weighted average of the exit ages of each five-year age cohort, starting with the cohort aged 40-44 at the first date, using absolute changes in the labour force participation rate of each cohort as weights.

e) Unemployed for more than one year.

f) 2000, 2005, 2010.

g) Job-related training during the last month.

h) Unweighted averages for 34 OECD countries.

Source: OECD estimations from national labour force surveys and OECD Education database.

www.oecd.org/els/employment/olderworkers

Table 2. Ageing and employment policies: Japan (situation mid-2012)

OECD's recommendations to Japan in 2004	Action taken
A. Strengthening financial incentives to carry on working	
<i>Reconsider specific provisions of the pension system</i>	+
<i>Review pension rights for women</i>	+
<i>Review the system of the Employment Continuation Benefit</i>	/
B. Tackling employment barriers on the side of employers	
<i>Further restrict the use of mandatory retirement</i>	+
<i>Encourage reform of the seniority wage system</i>	/
<i>Review employment protection legislation</i>	+
<i>Rationalise further the system of wage subsidies for older workers</i>	/
<i>Strengthen measures to combat age discrimination</i>	+
C. Improving the employability of older workers	
<i>Strengthen and expand training opportunities for mid-career and older workers</i>	/
<i>Continue to improve the quality of PES</i>	/
<i>Enhance financial incentives for the re-employment of older jobseekers</i>	+
<i>Provide better arrangements for non-regular forms of work</i>	+
<i>Lower working hours and improve working conditions</i>	+
<p><i>Notes</i></p> <p>/ = no (relevant) action taken; + = some action taken, but more could be done; ? = some action taken, but could have negative impact and requires further assessment; ++ = substantial action has been taken.</p> <p>Source: OECD (2004), <i>Ageing and Employment Policies: Japan</i> and answers to the follow-up questionnaire from Japan.</p>	