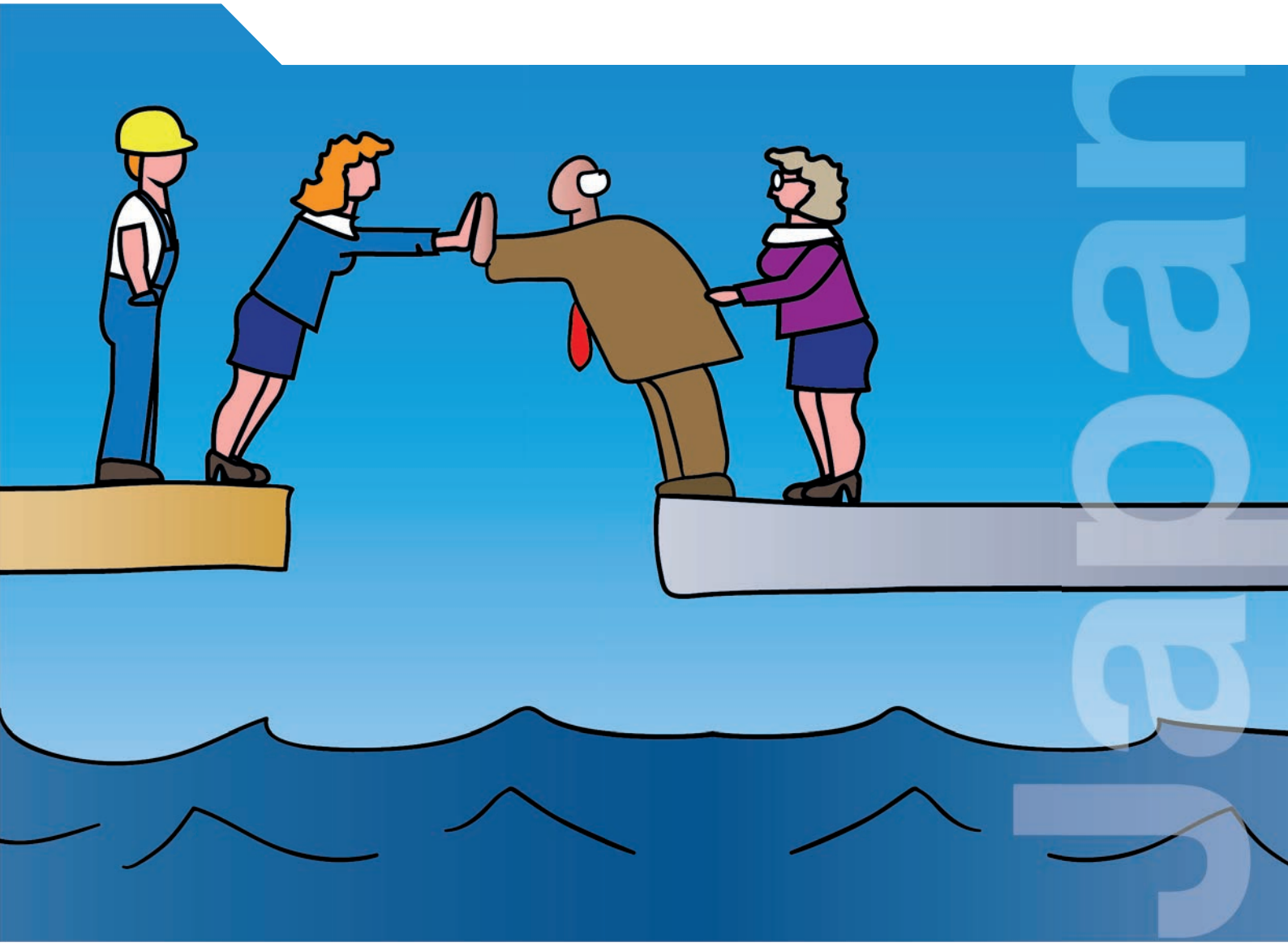
Ageing and Employment Policies

Working Better with Age: Japan



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Ageing and Employment Policies

Working Better with Age: Japan

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Foreword

Given the phenomenon of rapid ageing, providing people with better incentives and choices to work at an older age is tremendously important, both in order to promote economic growth and to help sustain public social expenditures. Therefore, in 2011 the OECD Employment, Labour and Social Affairs (ELS) Committee decided to carry out a new series of policy reviews to encourage greater labour market participation at an older age, by fostering employability, job mobility and labour demand. It builds upon previous work that the OECD has conducted in this area in the Ageing and Employment Policies series, summarised in the Organisation's major cross-country report *Live Longer, Work Longer,* published in 2006.

This report on Japan is the last of the nine OECD country case studies comprising this new series of reviews. It points to areas where changes or new reforms are needed in Japan to improve work incentives and employment opportunities at an older age. Other countries in the series include Denmark, France, Korea, the Netherlands, Norway, Poland, Switzerland and the United States.

Drawing on the findings of these comparative policy reviews of recent reforms a synthesis report entitled *Working Better with Age* will be prepared in 2019 to highlight key issues and policy recommendations.

This report was prepared by Nicola Duell, Yusuke Inoue, Mark Keese (Head of Division), and Shruti Singh. Statistical work was provided by Dana Blumin and Duncan MacDonald and technical assistance by Monica Meza-Essid. Editorial assistance was provided by Lucy Hulett. Valuable comments were provided by Stefano Scarpetta (ELS Director). The report also benefited greatly from discussions with government officials, employer and trade union representatives, and other experts during an OECD mission to Japan in October 2017 and from comments provided by the Ministry of Health, Labour and Welfare.

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Acronyms and abbreviations

ALMP	Active Labour Market Programme
CCFCLA	Child Care and Family Care Leave Act
DQR	*Deutscher Qualificationsrahmen*
EI	Employment Insurance
EPEW	Equal Pay for Equal Work
EQF	European Qualification Framework
ETB	Education and Training Benefit
EU	European Union
EU-OSHA	European Agency for Safety and Health at Work
EUR	Euro
FY	Fiscal Year
GDP	Gross Domestic Product
GPEC	*Gestion prévisionnelle de l'emploi et des compétences*
IA	Inclusive Workplace (Agreement)
ICT	Information and Communication Technology
IESC	Industrial Employment Stabilisation Centres
ILA	Individual Learning Accounts
INO	New Opportunities Initiative
IT	Information Technology
JEED	Japan Organization for Employment of the Elderly, Persons with Disabilities and Job Seekers
JHPS/KHPS	Japan Household Panel Survey
JILPT	Japan Institute of Labour Policy and Training
JPSED	Japanese Panel Study of Employment Dynamics
JPY	Japanese Yen
LASI	Länder for Occupational Safety and Health
LFS	Labour Force Survey
LSMEP	Longitudinal Survey of Middle-aged and Elderly Persons
LSIO	Labour Standard Inspection Office
MHCC	Mental Health Commission of Canada
MHLW	Ministry of Health, Labour and Welfare
NGOs	Non-Governmental Organisations
NIACE	National Institute of Adult Continuing Education
NPS	New Pay System
NQF	National Qualification Framework
OFF-JT	Off-the-Job Training
OJT	On-the-Job Training
PES	Public Employment Service
PHSMS	Psychological Health and Safety Management System
PIAAC	Programme for the International Assessment of Adult Competencies
RVCC	*Reconhecimento, Validação e Certificação de Competências*
SAM	Systematic work environment management
SHRC	Silver Human Resource Centre
SME	Small and Medium-sized Enterprises
SUVA	Swiss Accident Insurance
UK	United Kingdom
VET	Vocational Education and Training

OECD country ISO codes

Australia	AUS
Austria	AUT
Belgium	BEL
Canada	CAN
Chile	CHL
Czech Republic	CZE
Denmark	DNK
Estonia	EST
Finland	FIN
France	FRA
Germany	DEU
Greece	GRC
Hungary	HUN
Iceland	ISL
Ireland	IRL
Israel	ISR
Italy	ITA
Japan	JPN
Korea	KOR
Latvia	LVA
Lithuania	LTU
Luxembourg	LUX
Mexico	MEX
Netherlands	NLD
New Zealand	NZL
Norway	NOR
Poland	POL
Portugal	PRT
Slovak Republic	SVK
Slovenia	SVN
Spain	ESP
Sweden	SWE
Switzerland	CHE
Turkey	TUR
United Kingdom	GBR
United States	USA

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 mandatary 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.

Chapter 1. Employment of older workers in times of transition in Japan

Tackling major challengs, population ageing and shrinking labour force, is crucial for Japan to achieve more growth and ensure the financial sustainability of its public social expenditures. Wide range of policy efforts including reform of the Japanese traditional employment system should be taken to increase the elderly and female participation in the labour market to mitigate the negative impact of shirinking population on Japan's economy.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Rapid population ageing and a shirinking labour force in Japan are major challenges for achieving further increases in living standards and ensuring the financial sustainability of public social expenditures. 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. Chapter 1 highlights that there is still scope for increasing further the participation of older people in the labour market. However, as discussed in the following chapters, the current conditions under which older people work are not always very satisfactory. Chapter 2 investigates the barriers to retention and hiring of older workers and suggests several policy responses. Chapter 3 focuses on a particularly important aspect: increasing the employability of older workers. This includes encouraging skill development amongst older workers as well encouraging and helping older jobseekers to find work. Finally, Chapter 4 considers what policy measures are required to improve working conditions for older workers.

Employment of older workers in times of transition

Around the world, rapid population ageing has driven the development of policies to extend working lives. There are a number of policy levers, many on the side of retirement policies to strengthen incentives to retire later. But an increasing number of countries are also focusing on employment behaviour of firms and the employability of older workers, including: extending or abolishing the mandatory retirement age; fighting age discrimination; promoting further training over the whole working life; encouraging age-management approaches by employers; strengthening employment services for older job-seekers; and improving the health of older workers through good workplace practices throughout working careers.

The policy measures that need to be taken and their effectiveness will depend on macro-economic, institutional, and cultural context and the actual labour market situation of older workers in each country. Therefore, this chapter thus reviews the current and future situation of older workers in the Japanese labour market. A number of key issues are highlighted. First, the current tight labour market in Japan is creating favourable macroeconomic conditions for the employment of greater numbers of older workers, which would contribute to reducing the decline in the labour force and help support the financial sustainability of the pension system. Second, the policy responses to encourage longer working lives and higher employment at older ages will need to be tailored to the different labour market situations that older Japanese face.

Given rapid population ageing, promoting work at an older age is more important than ever

Longer working lives could help limit the decline in Japan's workforce

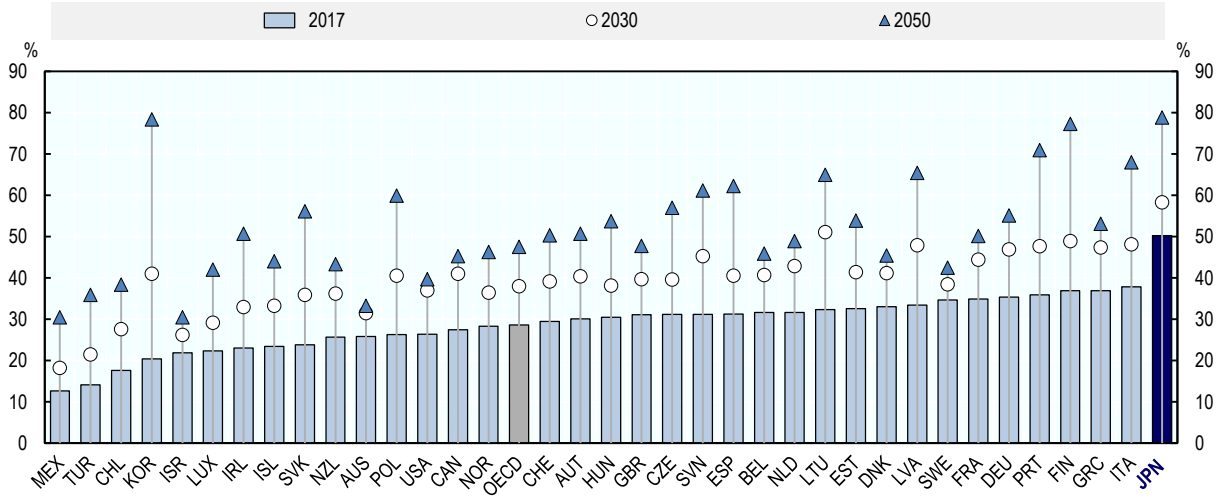
Population ageing in Japan has progressed further and more rapidly than in most other countries. Japan displays the highest old-age dependency ratio of all OECD countries, with a ratio in 2017 of over 50 persons aged 65 and over for every 100 persons aged 20 to 64 and this ratio is expected to increase further to 79 per hundred in 2050 (see Figure 1.1).

This trend is putting considerable pressure on the financial sustainability of Japan's social security system. The basic old-age pensionable age is 65 years old, although people can choose to start taking pensions at any point between aged 60 and 70 with less or greater monthly payments compared to those who start at age 65. Thus, an increase in the population after the age of 65 has a direct impact on pension expenditure. In addition,

medical expenses tend to rise steeply at older ages. In particular, expenses increase sharply after the age of 75 (MHLW, 2016[1]). Key crunch years will occur in 2025 when the first baby boomers will be 75 years or older and in 2035 when the second baby boomers will reach the age of 65. Extending working lives would help to limit the decline in the workforce and boost social security contributions to finance rising health and pension expenditures.

Figure 1.1. Population ageing is already well advanced in Japan and will progress further

Demographic dependency ratios, OECD countries, 2015, 2030 and 2050,
Population aged 65 and over as a percentage of the population aged 20-64



Note: The OECD is a weighted average.
Source: *OECD Population and Labour Force Projections Database* (unpublished).

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It would also help to relieve concerns about current and future labour shortages (Bank of Japan, 2014[2]). 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 (Figure 1.2). Unemployment is at a very low level currently and so there is little scope to offset this decline through further falls in its level. Instead, given that older people will account for a large and increasing share of the population, they would make the biggest contribution to reducing the decline in the overall labour force if more of them were working. This can be illustrated through two scenarios.[1]

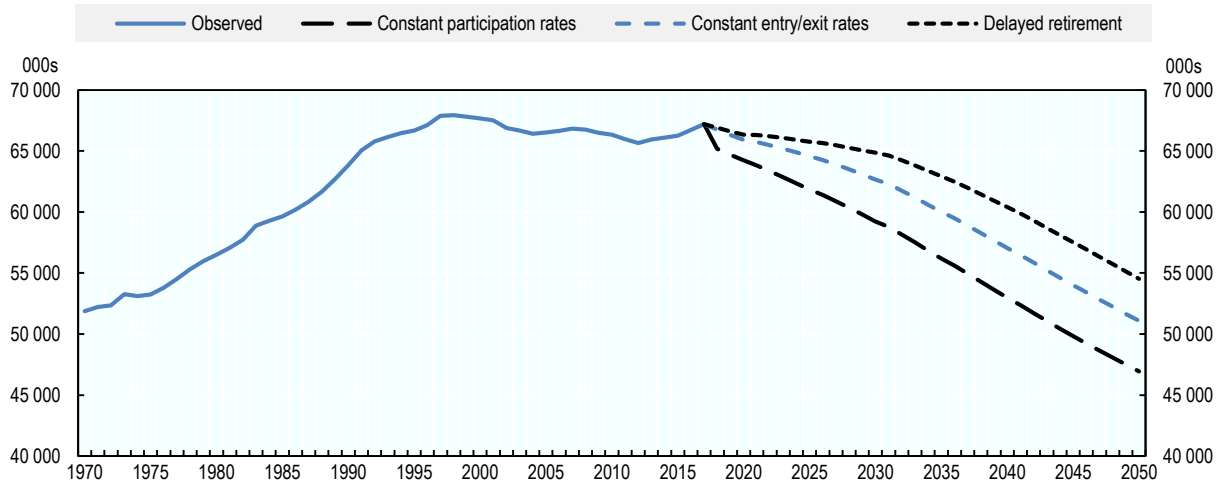
The first "baseline" scenario for the projection period 2017-50 assumes that labour force entry and exit rates over a 5-year period by 5-year age groups and gender remain constant at their average rate observed for each 5-year period 2007-12 to 2012-17.[2] In this case, there will be some increase in participation rates, especially for older women (and older men aged 65 and over), as these fixed exit rates will apply to participation rates that are higher currently for these groups than previously. This is quite a realistic scenario in that it simply implies unchanged retirement behaviour. In other words, older people who are in the labour force at any period continue to withdraw from the labour force at the same rate as occurred

over the recent past. Similarly, those outside of the labour force for each age-group and gender continue to enter the labour force at the same rate each year. Under this scenario, the labour force would contract by around 4.5 million by 2030, i.e. 3.5 million less than if participation rates remain unchanged.

The second "delayed retirement" scenario takes into account the fact that retirement behaviour has not remained unchanged over the recent past and that there is scope for government policies to encourage and facilitate later retirement. It therefore assumes that the average effective age of retirement rises by 1.1 and 0.7 years for men and women, respectively, by 2030. It does this by adjusting exit rates downwards for both men and women by 10% from the age of 55 onwards. Under this scenario, the labour force would contract by only around 2.4 million by 2030, i.e. 5.6 million less than if participation rates remain unchanged.

Is this second scenario plausible? The increase in the effective retirement age by gender between 2017 and 2030 would, in fact, be similar or lower than the increase of 1.1 years for men and 3.2 years for women that occurred over the period 2004-17. Moreover, the projected increase in the effective age of retirement would still be slightly less than the projected increase in life expectancy. Thus, the expected number of years in retirement would increase marginally from 15.2 years in 2017 to 15.4 years in 2030 for men and from 20.5 to 21.0 years for women.

Figure 1.2. Later retirement by older people would reduce the decline in Japan's labour force



Note: The projections based on constant participation rates assume that participation rates by gender and 5-year age groups remain fixed at their 2017 levels. The projections with constant entry/exit rates assume that labour force entry and exit rates over a 5-year period by gender and 5-year age groups remain constant at their average rate observed in the period 2008-17. The projections with delayed retirement are the same as for the projections with constant entry/exit rates but with exit rates from age 55 onwards adjusted downwards by 10%, phased in over the period 2017-30.
Source: OECD projections based on data from the *OECD Population and Labour Force Projections Database* (unpublished).

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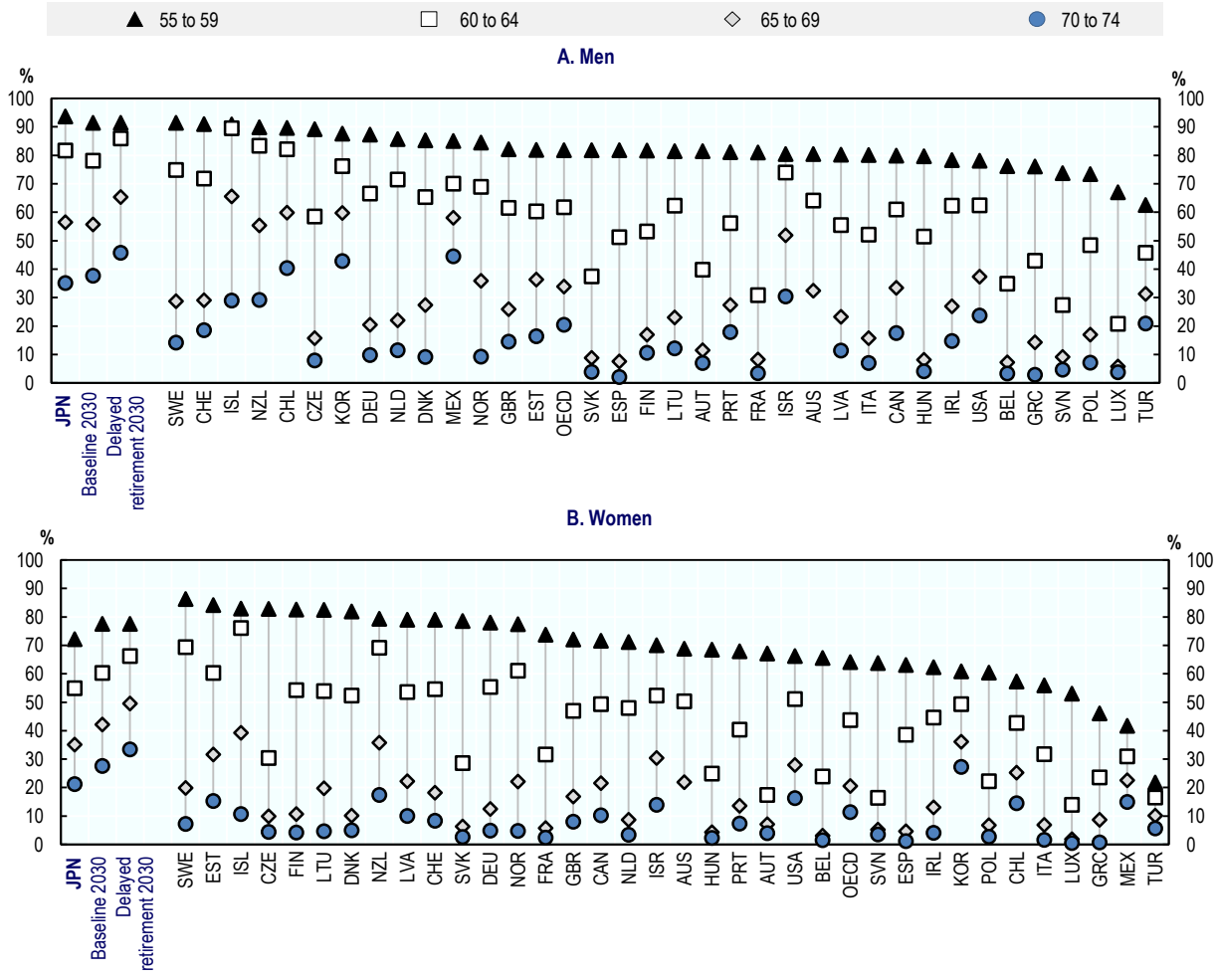
Figure 1.3. Japan already has some of the highest participation rates for older people among OECD countries

Persons in the labour force as a percentage of the population in each age group, 2017 (and 2030 for Japan)



Note: The OECD is a weighted average. The baseline and delayed retirement variants refer to projections for Japan for 2030. The baseline projections assume unchanged labour force entry and exit rates by age group and gender. The delayed-retirement variant assumes that exit rates from the labour force after the age of 55 decline by 10% in each age group, leading to a rise in the average effective retirement age of 1.1 and 0.7 years for men and women, respectively, by 2030.
Source: *OECD LFS by sex and age - indicators dataset*: http://stats.oecd.org//Index.aspx?QueryId=64198; and OECD projections (unpublished) for 2030 for Japan.

StatLink http://dx.doi.org/10.1787/888933890407

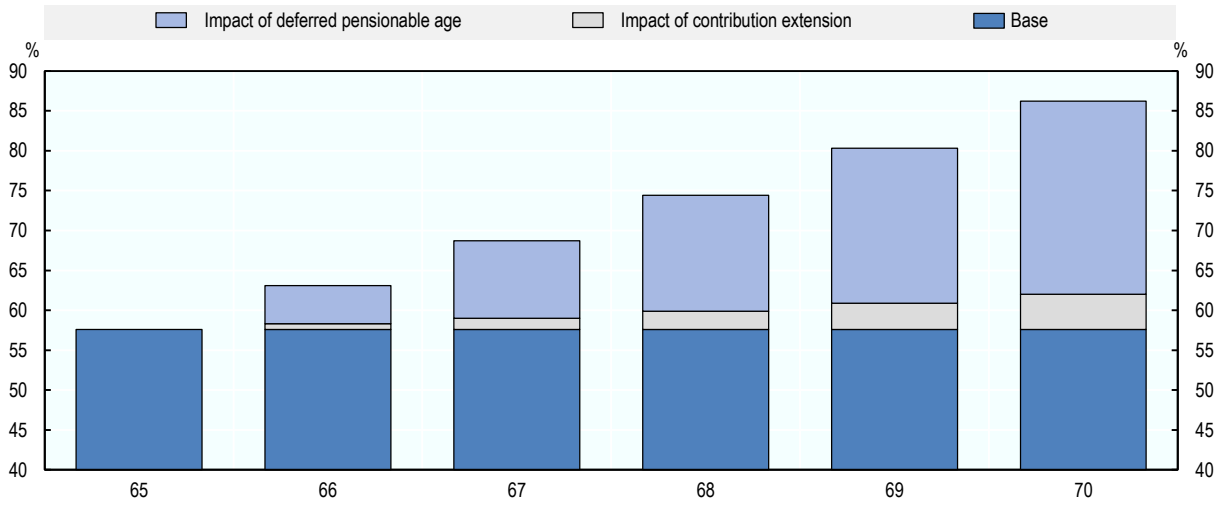
The projected labour force participation rates by gender and broad age group under the second "delayed retirement" scenario can also be compared with their current values in Japan and other OECD countries (Figure 1.3). Currently, participation rates are already higher for older men in Japan than in nearly all OECD countries, except for Chile, Iceland and New Zealand. Thus, the challenge for Japan will be to not only maintain this gap but raise participation rates further as indicated by the projected rates for 2030. Participation rates for older women are also higher currently in Japan than in most other OECD

countries. However, a number of countries have higher rates for women in their late 50s and early 60s, such as Estonia, Iceland, New Zealand, Norway and Sweden. Under the delayed retirement scenario, participation rates for women in these age groups would be higher than previously but still below the highest rates current observed among OECD countries. In contrast, the rate for women in their late 60s and early 70s would exceed those observed currently for any OECD country. In addition, for women aged 25-54, participation rates are lower in Japan than in a number of other OECD countries. This suggests that in order to fully mobilise its labour resources, Japan will need to raise labour force participation of women both at younger ages as well as at older ages.

Increased labour force participation by older Japanese would also contribute significantly to the fiscal sustainability of social security

An increase in the labour force participation for older people and prime-age women in Japan would not only serve to partially offset the negative effects of population ageing on the size of the workforce, but would also help to bolster incomes and pensions at older ages. This is particularly important in Japan, where the relative poverty rate of people aged over 65 years is 19.6% against 12.5% on average in the OECD (OECD, 2017[3]). The Japanese Ministry of Health, Labour and Welfare has estimated the impact of a longer working life on the maximum pension replacement rate (MHLW[3], 2014). The current maximum rate is 51% assuming the current maximum contribution period of 40 years, e.g. between the ages 20-60, and a pensionable age of 65. If instead, workers contribute for 50 years (e.g. working throughout ages 20-70), the replacement rate would reach 86.2% (Figure 1.4). The increase is attributed largely to the deferred pensionable age in the estimation. This may appear ambitious, and in reality many individuals do not currently contribute for 40 years (especially women). Record low unemployment and a further increase in life expectancy that is already high relative to other countries may nevertheless create the space for a rise in the number of contribution years in the future.

Figure 1.4. Impacts of contribution extension and deferred pensionable age on pension replacement rate as of 2058



Source: Ministry of Health, Labour and Welfare (2014).

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Tailoring policies to the specific situation of older workers

How then can public policy foster higher labour market participation at older ages? Other countries facing rapid population ageing and labour shortages have developed strategies to increase labour supply. One example is Germany (see Box 1.1), However, 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 and 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 which must be addressed.

Box 1.1. Germany's strategy for dealing with labour shortages

The German government's strategy for "Securing Skilled Labour" (Fachkräftesicherung) was announced in 2011 (Bundesministerium für Arbeit und Soziales, 2011). Five pathways and objectives have been defined: i) activating and retaining older workers and activating unemployed; ii) improving reconciliation of work and family life; iii) promoting access to education starting from childhood for all groups in society; iv) encouraging initial and further vocational training; and v) improving the integration of immigrants as well as attracting skilled immigrants. The government regularly publishes monitoring reports evaluating the implementation of this strategy

Japan's traditional lifetime employment system is under strain

In part, high rates of employment for Japanese men in their 50s can be explained by Japan's lifetime employment system. Under this system, large corporations will 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) (Koike, 1988[4]). However, this system is coming under increasing strain because of structural changes in the economy which are making it harder for companies to guarantee a job for life.

This model is far from universal in the Japanese labour market (Table 1.1). It is typically more prevalent in large firms, where it covers between one third and one half of workers, and much less common in small firms. While this type of contract is most often associated with the manufacturing sector, it is also extensively used by large firms in other sectors. The proportion of workers who have worked continuously with the same employer since leaving education tends to decline with age as it becomes more likely that some individuals will change their employer (either voluntarily or involuntarily) the longer they have been in employment. Many do not move: in large manufacturing firms, 48% of graduates aged 50-59 have never switched employer. While school graduates benefit much less frequently from lifetime employment contracts than university graduates, gender differences are small for graduates before the age of 40 (Table 1.2) but diverge substantially thereafter as many

women quit their career jobs for family reasons and if they re-enter the labour market it will often be in a new job.

Table 1.1. Lifetime employment is frequent in large firms and not only in manufacturing

Lifetime employees as a share of all employees by age, firm size and sector, 2016

Age	Large firms	Medium firms	Small firms
15-29	52.4	49.9	32.4
30-39	31.0	24.6	11.8
40-49	36.8	23.3	8.9
50-59	38.9	20.6	7.3
Manufacturing			
Age	**Large firms**	**Medium firms**	**Small firms**
15-29	52.3	52.3	33.4
30-39	31.2	27.9	13.1
40-49	42.4	29.3	10.5
50-59	46.1	26.0	7.9
Non-manufacturing			
Age	**Large firms**	**Medium firms**	**Small firms**
15-29	52.5	48.8	32.0
30-39	31.0	23.3	11.4
40-49	34.3	21.1	8.3
50-59	35.7	18.7	7.1

Note: Lifetime employees are all employees who were continuously employed by enterprises directly after graduating from school or university. Large firms: more than 1 000 employees; medium firms: between 100 and 999; small firms: between 10 and 99.
Source: Japanese Ministry of Health, Labour and Welfare, *Basic Wage Survey, 2016*.

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Table 1.2. Graduates more often have lifetime employment contracts and women as frequently as men before age 40

Lifetime employees as a share of all employees by age, gender and graduate status, 2016

Age	Female junior or high-school graduates	Female university graduates	Male junior or high-school graduates	Male university graduates
All ages	14.3	43.9	21.0	37.9
15-29	32.1	69.2	37.8	58.2
30-39	11.0	34.0	15.9	32.3
40-49	10.1	22.2	18.5	33.1
50-59	6.3	14.5	17.1	33.9

Note: Lifetime employees are all employees who were continuously employed by enterprises directly after graduating from school or university.
Source: Japanese Ministry of Health, Labour and Welfare, *Basic Wage Survey, 2016*.

StatLink http://dx.doi.org/10.1787/888933891110

Lifetime employment is somewhat rarer today than it used to be (Table 1.3). For workers in their 30s and 40s in large firms, there has been a reduction of the proportion employed with the same employer since leaving education of 9 to 15 % points between 2006 and 2016. This is consistent with an earlier study by (Kawaguchi and Ueno, 2013[5]) using both the

Employment Status Survey and the Basic Survey on Wage Structure which found a continued decline of job stability for men across all firm sizes.

Table 1.3. Lifetime employment is less prevalent today than ten years ago in most age groups

Change in the share of employees who are lifetime employees by age and firm size, 2006-16
(in percentage points)

Age	Large firms	Medium firms	Small firms
15-29	1.1	2.9	2.1
30-39	- 15.0	- 7.6	- 1.2
40-49	- 9.4	- 4.3	- 1.5
50-59	-1.9	- 0.8	0.0

Note: Lifetime employees are all employees who were continuously employed by enterprises directly after graduating from school or university. Large firms: more than 1 000 employees; medium firms: between 100 and 999; small firms: between 10 and 99.
Source: Japanese Ministry of Health, Labour and Welfare, *Basic Wage Survey, 2006* and *2016*.

StatLink http://dx.doi.org/10.1787/888933891129

Workers after mandatory retirement face a difficult transition to full retirement

Not only is the lifetime employment system becoming less common but it only provides for stable employment up to the mandatory retirement age. After that age, many firms may require workers to leave because they have a policy of mandatory retirement or they will re-hire their older workers but in a different job function at a much lower wage. Firms do this because as part of their lifetime employment system they have a seniority-based pay system that rewards workers for each additional year of service. However, as discussed further in Chapter 2, this makes older workers expensive relative to their productivity which creates a barrier to their continued employment (Frimmel et al., 2015[6]).

Following mandatory retirement many older workers are required to switch job duties as well their status from regular employees to non-regular employees. In 2017, the share of all employees who were non-regular employees jumps from only 12% for men aged 55-59 to 52% for men aged 60-64 (Figure 1.5). Thus, not only do many older workers face a large cut in wages following mandatory retirement from their lifetime jobs but they also switch to jobs that are more precarious. Moreover, as discussed in Chapter 4, this can have negative consequences for their productivity as they may be less motivated because of lower job satisfaction and also because they may not be fully utilising the job-specific skills they acquired prior to mandatory retirement.

Labour force participation of women at all ages can be improved

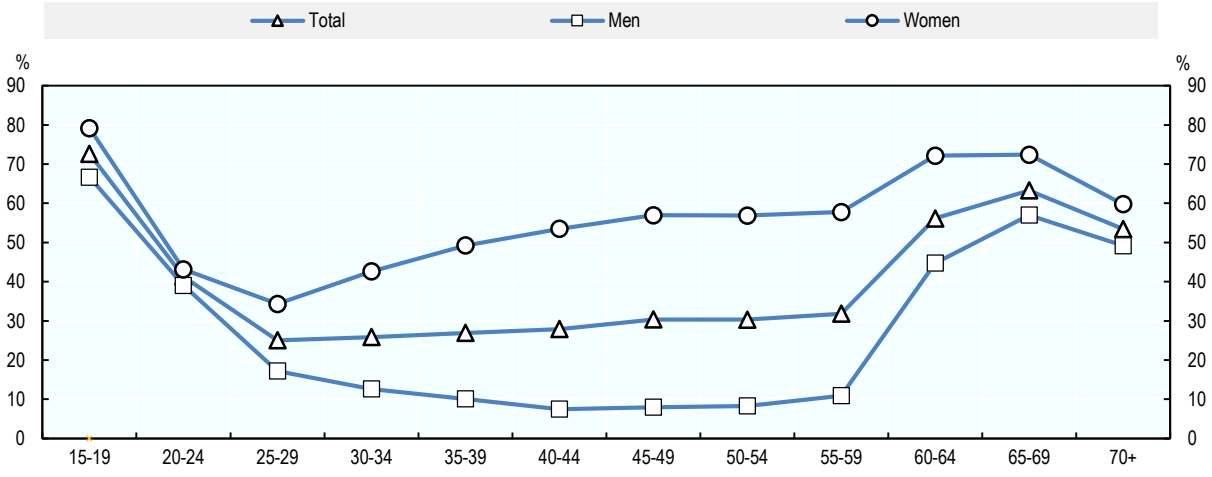
In Japan, many women leave employment following marriage and child birth. Some of them subsequently come back to work and indeed the typical “M” shape in women’s participation rates by age (starting to rise after completion of initial education, then falling after childbirth prior to rising again in their 40s and 50s and subsequently declining once more as they retire) has become less pronounced over recent decades. Nevertheless, women’s participation in the age group 25-54 remains well below the levels in many other advanced OECD countries.

Moreover, most women re-entering the labour force find jobs in non-regular employment rather than regular employment and from the age of 35 onwards, the majority of female

employees are non-regular employees (Figure 1.5). Consequently, there is a double challenge for policy with respect to women which is to both raise their participation rates at all ages and to improve their access to regular employment. These issues are discussed in more detail in Chapter 4, especially the need to improve work-life balance for women, tackle long hours of work and reduce labour market duality.

Figure 1.5. Many workers become non-regular employees after reaching 60 years old

Non-regular employees as a percent of all employees by age, 2017



Source: Japanese *Annual Report of the Labour Force Survey*, 2017.

StatLink http://dx.doi.org/10.1787/888933890445

Notes

[1] In all cases, the labour force projections are based on Japan's national population projections produced by the National Institute of Population and Social Security Research.

[2] More specifically, it is assumed that labour force entry and exit rates over a 5-year period by 5-year age groups and gender remain constant at their average rate observed in the period 2008-17. Labour force exit rates over a 5-year period are calculated as the ratio of the participation rate for each 5-year age group at the end of the period relative to the participation rate of the same age group aged 5 years younger at the beginning of the period. Entry rates are calculated in the same way except the rate of non-participation is used,

[3] https://www.mhlw.go.jp/file/06-Seisakujouhou-12500000-Nenkinkyoku/report2014_section4.pdf.

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Chapter 2. Supporting employers to retain and hire older workers in Japan

This chapter provides an overview of employment practices of firms with respect to older workers and factors behind the reluctance of some employers in Japan to retain or hire older workers. It does so by looking at the role of mandatory retirement policies, employment protection rules and government policies such as the Act on Stabilization of Employment of Older Persons. Efforts to manage age diversity in the work place and age discrimination are also examined. The chapter provides various policy solutions and a range of good practice across the OECD in the above areas to enhance employment prospects of older workers.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Introduction

Obstacles to retain and hire older workers often relate to negative perceptions and stereotypes among employers about this group of workers. Nonetheless, a number of objective factors also discourage employers from hiring and retaining older workers, especially the most vulnerable among them. In particular, there needs to be a better match between the costs of employing older workers and their productivity. The Japanese labour market continues to rely strongly on labour practices, such as the mandatory retirement age and seniority based wage and compensation systems, which have undermined efforts to extend working lives in Japan. In addition, relatively rigid employment protection for permanent workers has meant that firms make widespread use of setting a mandatory retirement age, which means that labour adjustment is confined to older workers or prompting firms to turn to non-regular workers.

Employment practices and labour costs of older workers in Japan

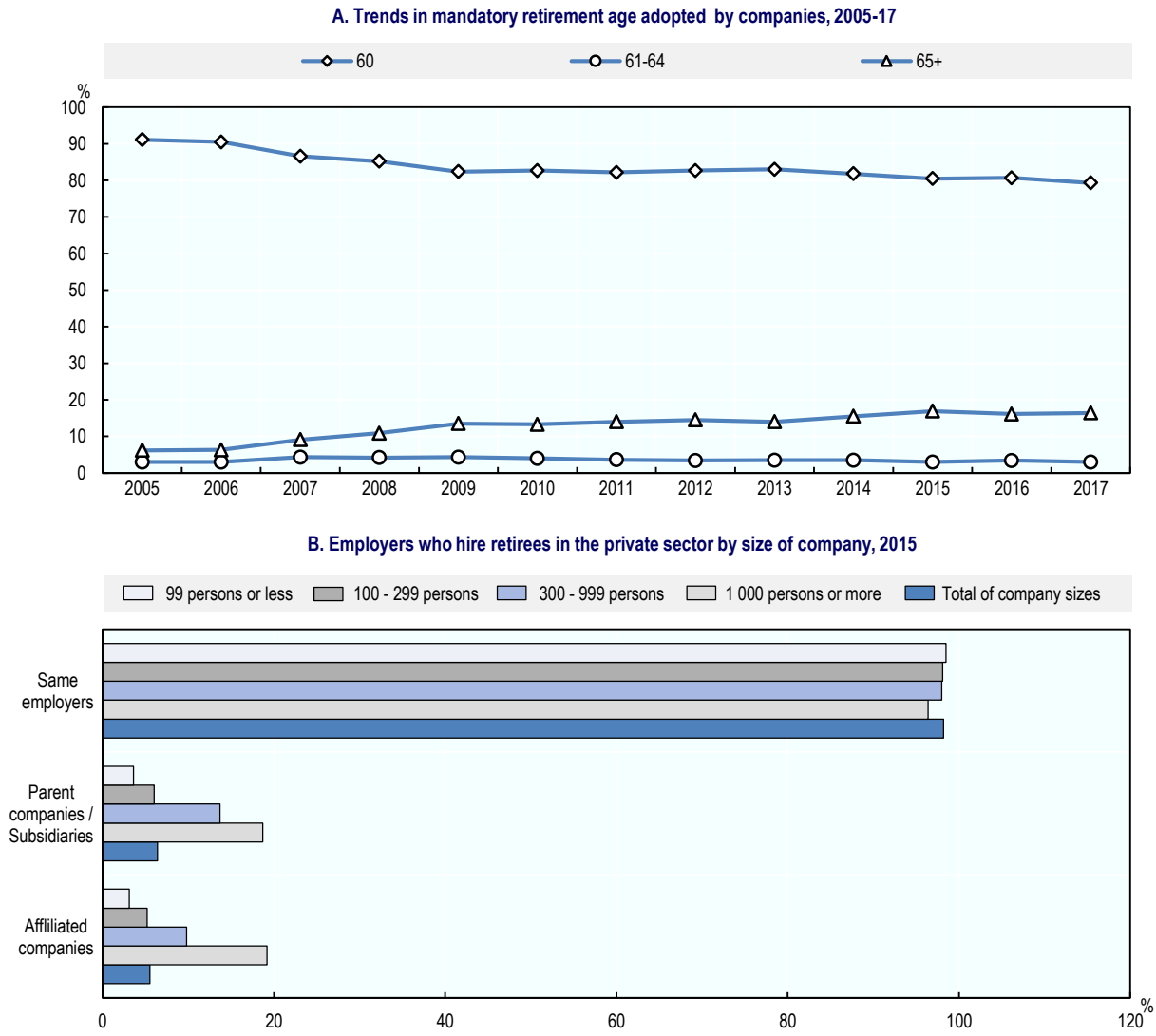
Mandatory Retirement Age

Mandatory retirement is a key element of traditional Japanese labour practices. Most Japanese companies continue to require that employees retire upon reaching a specified age. In 1980, the majority of Japanese firms set the mandatory retirement age (MRA) at 55. However, against a background of increases in longevity and rapid population ageing, government exhortation, incentive programmes and progressively tighter legislation have contributed to the elimination of mandatory retirement before the age of 60.

The current system of regulating employment at an older age under the Act on Stabilization of Employment of Older Persons prohibits the setting of a mandatory retirement age of lower than 60. An amendment to the Act in 2004 obliges employers who set a retirement age of lower than 65 to introduce any of the three following measures so as to secure employment for employees until the age of 65. First, abandon the mandatory retirement age altogether. Second, raise the mandatory retirement age to at least 65 – implying that workers remain in their current job until they receive a public pension. Third, re-employ workers in a different type of job function at the same firm.

Over the past decade, few large firms have extended their formal mandatory retirement age, but they have increasingly implemented programmes for the continued employment of their older workers up to the age of 65. In 2017, just under 80% of firms had kept their retirement age at 60, representing a small decline of 12 percentage points below that in 2005. Meanwhile, the share of firms adopting a mandatory retirement age at 65 is on the rise (Figure 2.1, Panel A). Furthermore, the vast majority of retirees are rehired by the same firm. This practice prevails in all firms regardless of size.

Figure 2.1. Most firms have kept retirement age at 60



Source: Panel A: Japanese Ministry of Health, Labour and Welfare, *General Survey on Working Conditions* and Panel B: Japan Institute of Labour Policy and Training *Survey of the Employment of the Elderly* ("Company Survey").

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These reforms have been successful in expanding employment opportunities for older workers over the past decade. Between 2006 and 2017, the employment rate rose by 8.7 and 3.6 percentage points, respectively, for older persons in the age groups 55-64 and 65 and over. However, few companies have opted for the first and second option of the amended legislation due to the associated rise in wage costs. De facto, the reforms have allowed firms to adjust their workforce by re-hiring some workers into low paid and low productive jobs to offset the seniority wage system and relatively strict employment legislation which currently which hamper labour adjustment (see below for further discussions).

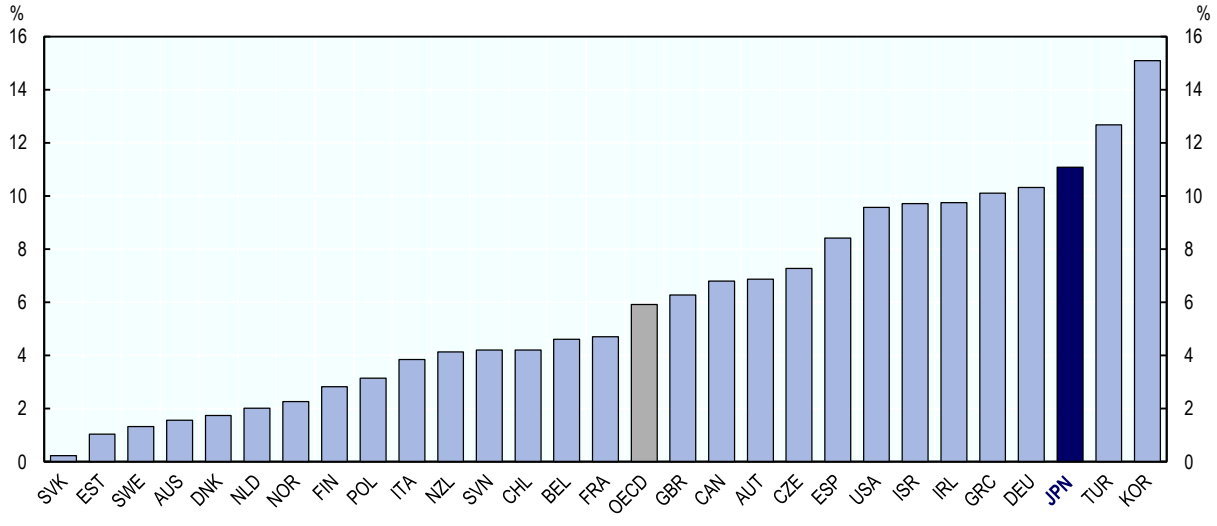
Pay rises with seniority are larger in Japan than in other countries

Seniority-based wage-setting practices are perhaps the single most important factor affecting employment outcomes for older workers in Japan. A seniority-based wage structure may help employers to strengthen the loyalty and motivation of their workers. If wages of workers rise the longer they stay with a firm, this will make them more reluctant to change jobs and they will also work harder to avoid being laid-off because they will not want to forgo the higher earnings that will accrue to them by staying longer with the same firm. However, after workers have reached a certain age, it may no longer be economic for employers to hold onto these workers because they will be paying more in wages than their productive value.

Even though Japan's wage system has been steadily changed over time, responding to prolonged economic stagnation and a legislative obligation to retain older workers, its seniority aspect remains strong. Figure 2.2 shows the predicted increase of wages in different countries for workers with 20 years of job tenure in a firm relative to those with just 10 years of tenure, conditional on skill levels and other controls for job and worker characteristics. In Japan, ten additional years of tenure increase wages by nearly 11% which is much higher than other OECD countries, except Korea and Turkey where the seniority wage system is also widespread (in the formal sector).

Figure 2.2. Seniority wages remain dominant in Japan

Predicted wage growth moving from 10 to 20 years of tenure, for individuals aged 50-60, 2013



Note: These estimates were obtained from a cross-sectional regression of wages on tenure, squared tenure and controls for: gender, experience, years of education, literacy and numeracy skills, occupation, skill use at work, and educational status of the parents. The OECD is a weighted average and excludes Hungary, Iceland, Latvia, Luxembourg, Mexico, Portugal and Switzerland. Data for the United Kingdom refer to England and Northern Ireland and Belgium to Flanders.
Source: OECD calculations based on the Survey of Adult Skills (PIAAC) (2012, 2015), www.oecd.org/skills/piaac/.

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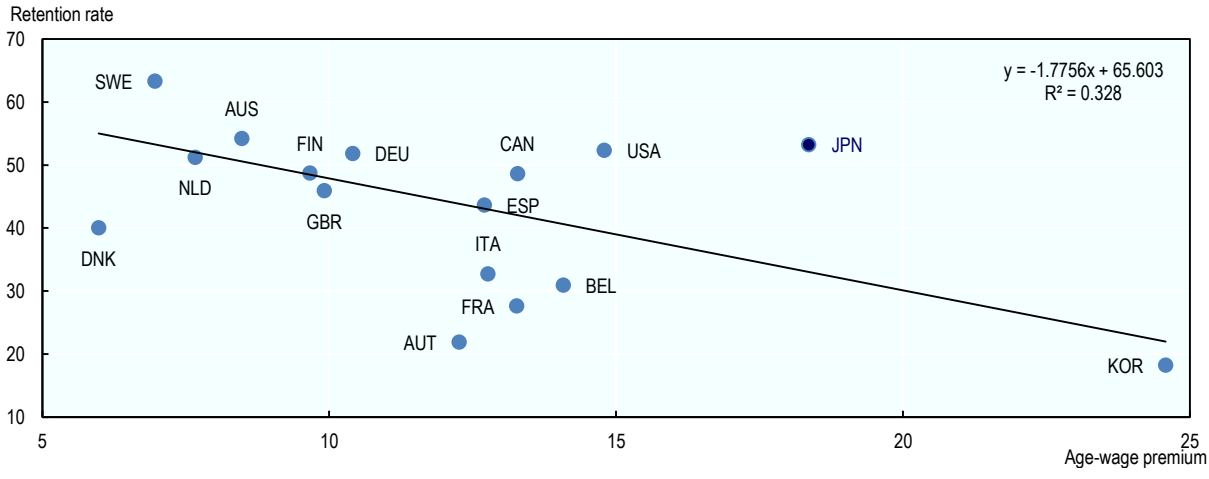
In many OECD countries, concerns have been raised that seniority-based pay schemes may create a barrier to employment of older workers (Frimmel et al., 2015[1]). A cross-country comparison of the relationship between the age-wage premium (a percent wage growth as age increases from 40-49 to 50-59) and the retention rate of workers aged 60-64 shows a negative trend among OECD countries (Figure 2.3). In Japan, the relatively strong retention rates despite high wages is largely explained by the 2004 amendments to the Act on Stabilization of Employment of Older Persons, under which employers are mandated to either to raise the retirement age to at least 65 – implying that workers remain in their current job until they receive a public pension or re-employ workers in a different type of job function at the same firm. While employment prospects of Japanese older workers fare well in quantitative terms, the majority experience a sharp decline in their job quality which in turn has negative implications for worker's job satisfaction and productivity (see Chapter 4).

Figure 2.3. Seniority based pay are negatively correlated with retention of older workers

Age-wage premium and retention rate, 2012



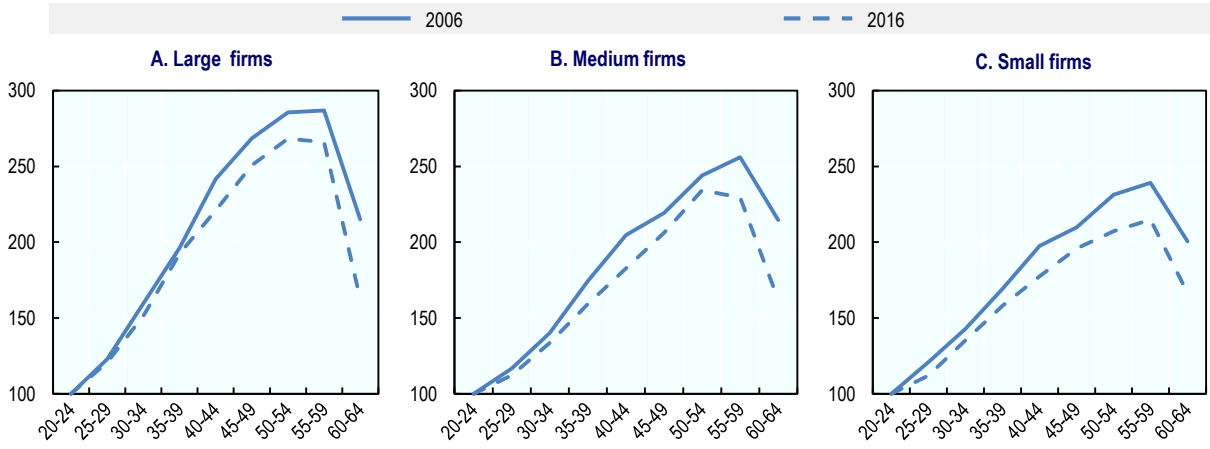
Note: The wage premium indicates the effects of age and tenure on wages estimated in the same regression as in Figure 2.2. The retention rate is defined as the number of employees aged 60-64 with job tenure of 5-years or more as a percentage of all employees aged 55-59 5-years previously (and 4-years previously for the United States).
Source: OECD calculations based on the Survey of Adult Skills (PIAAC) (2012) and *OECD Job Tenure Dataset*, http://stats.oecd.org//Index.aspx?QueryId=9590.

StatLink http://dx.doi.org/10.1787/888933890502

In Japan, wages for men rise quite steeply up to the age of 50-54, but start to decline thereafter, with a sharp drop occurring between the age groups 55-59 and 60-64 across firms of all sizes (Figure 2.4). In other words, as a consequence of the seniority wage system, after a certain age, wages fall steeply. The comparisons of wage profiles between 2006 and 2016 reveals that while the legislation on continued employment for older workers after the age 60 may have improved their job retention prospects, it may have also led to larger wage reductions at age of 60-64. In 2006, most of people aged 60-64 were not considered to be covered by the employment security law for older workers with the result that the average wage reduction was smaller than observed in 2016 when firms were obliged to hold onto employees who wished to work until 65.

Figure 2.4. Older workers face large wage declines

Wage profile changes for male standard employees graduating university by firm size



Note: Standard employees denote those who are employed by enterprises immediately after graduating schools and have been working for the same firms.
Source: Japanese Ministry of Health, Labour and Welfare *Basic Survey on Wage Structure* (2006, 2016).

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More generally, the age-wage profile for entire workers has become flatter over time due to the long period of economic stagnation, the reforms to extend working life and the increase in the employment of low-paid non-regular workers. However, as discussed in the following section, there is some evidence that firms have progressively included other factors than seniority when determining wages.

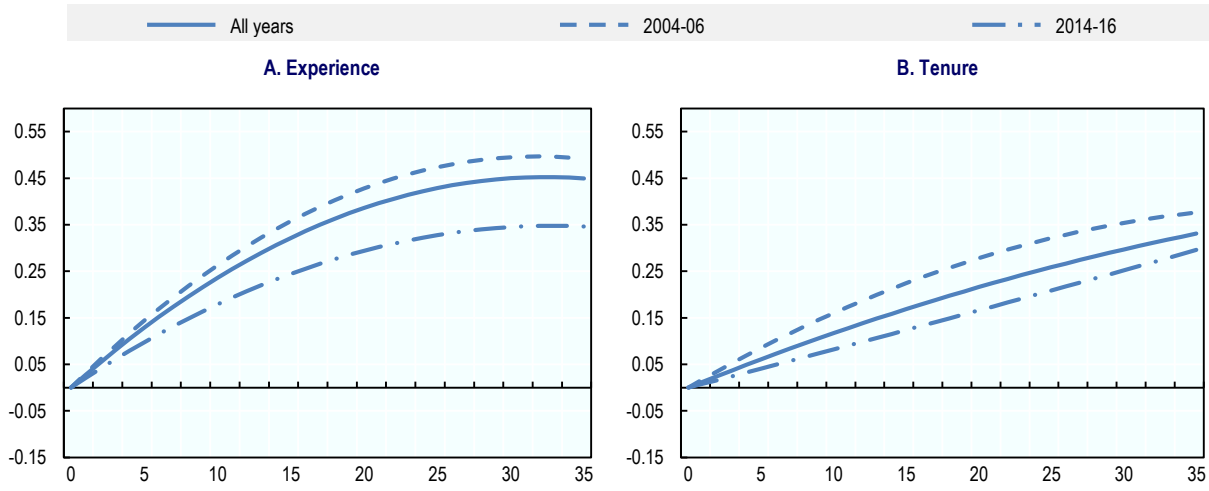
Seniority wage system is changing gradually

In line with other OECD countries, there are some indications that Japanese firms attach a decreasing value to age in setting wages. Figure 2.5 shows how the wage profile for full-time male workers (aged 15-59) has changed between 2004-06 and 2014-16 by decomposing wages into experience (age minus years of educations) and tenure effects. Several findings emerge:

- First, experience is positively correlated with wages, although with diminishing returns later on in careers i.e. 20 years or more after joining the labour market (Panel A). This can be explained by the result of an implicit contract between the employer and the employee such that wages depend on age or length of service, i.e. seniority, rather than an individual's work performance.
- Second, the return to tenure increases linearly with age i.e. wages increase proportionally with each additional year of tenure (Panel B). This is in line with human capital theory where productivity and earnings rise in the early to mid-stage of a career because workers acquire new skills after leaving school on and off the job, and decline at older ages as workers and firms invest less in skills.
- Finally, the slope of both experience-wage profiles and tenure-wage profiles have become flatter in the period 2014-16 suggesting that firms attach decreasing value to age. In both cases, this reflects a number of economic and policy reforms including firms' attempts to cut labour costs as a result of economic stagnation

and the government's initiative to raise retirement age through the Employment Stabilization Act enacted in 2006.

Figure 2.5. The Japanese wage system has gradually shifted from its traditional seniority pay system



Note: Mincer-type OLS regression for full-time men aged 15-59.
Source: OECD calculations based on the Japanese *Household Panel Survey* (KHPS/JHPS) provided by the Keio University Panel Data Research Center.

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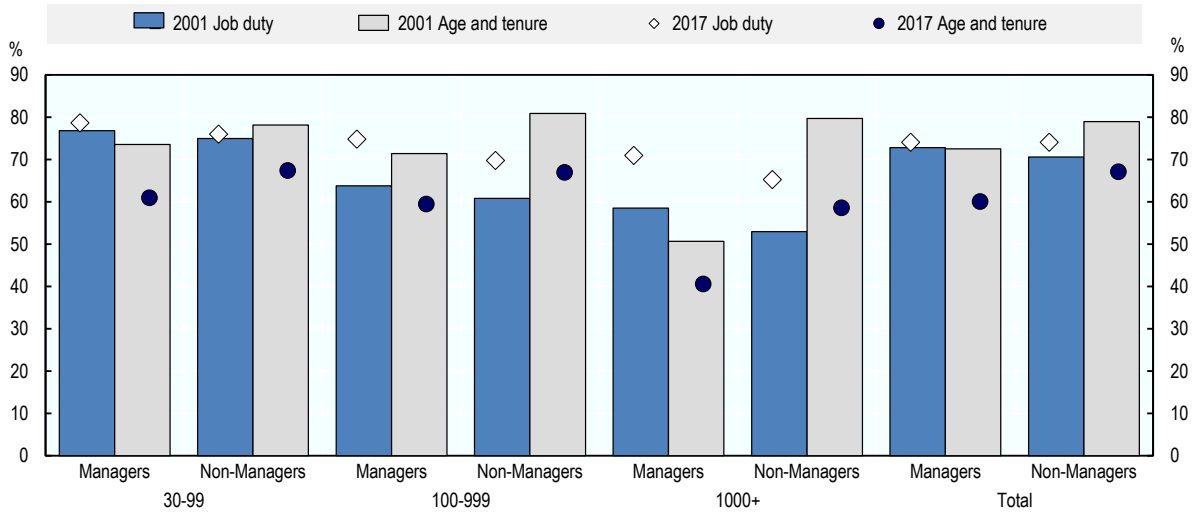
How and in which direction has the pay system been changed? According to the General Survey on Working Conditions in Japan, the percentage of companies that have introduced a job-based payment for the managerial level has been increasing modestly for both managerial and non–managerial positions. While the share of those setting wages based on age and tenure dropped by almost 12 percentage points respectively between 2001 and 2017 (Figure 2.6). The biggest changes are observed among non-management positions in large firms with more than 1 000 workers: wage setting based on seniority system declined sharply (20% over the same period). Setting wages so that they reflect job function or responsibilities means that the number of firms that are seeking to better align wages and productivity is increasing.

Figure 2.6. More firms are determining wages based on job duties than age and tenure

Share of wage components in determining basic wage by firm size, 2001 and 2017



Source: Japanese Ministry of Health, Labour and Welfare *General Survey on Working Conditions*, 2001 and 2017.

StatLink http://dx.doi.org/10.1787/888933890559

Besides the economic stagnation facing Japan over the past decade, these changes also reflect the ability of employers to change wage levels more flexibly in the face of the weak bargaining power of workers and fragmented collective bargaining system (OECD, 2017[2]).

Seniority pay strongly influence firms' retirement policies and may reduce productivity

Evidence suggests that firms whose pay structure includes a greater seniority pay component may be more likely to opt for the option of re-employment including a pay cut, whereas other firms may be more likely to opt for an extension of the mandatory retirement age. This may partly explain variances across industries: Whereas over 96% of firms in the well-paying finance sector and around 90% of firms in the important manufacturing sector kept their retirement age at 60, nearly one third of firms in the medical healthcare sector have already adopted alternative retirement schemes[1] .

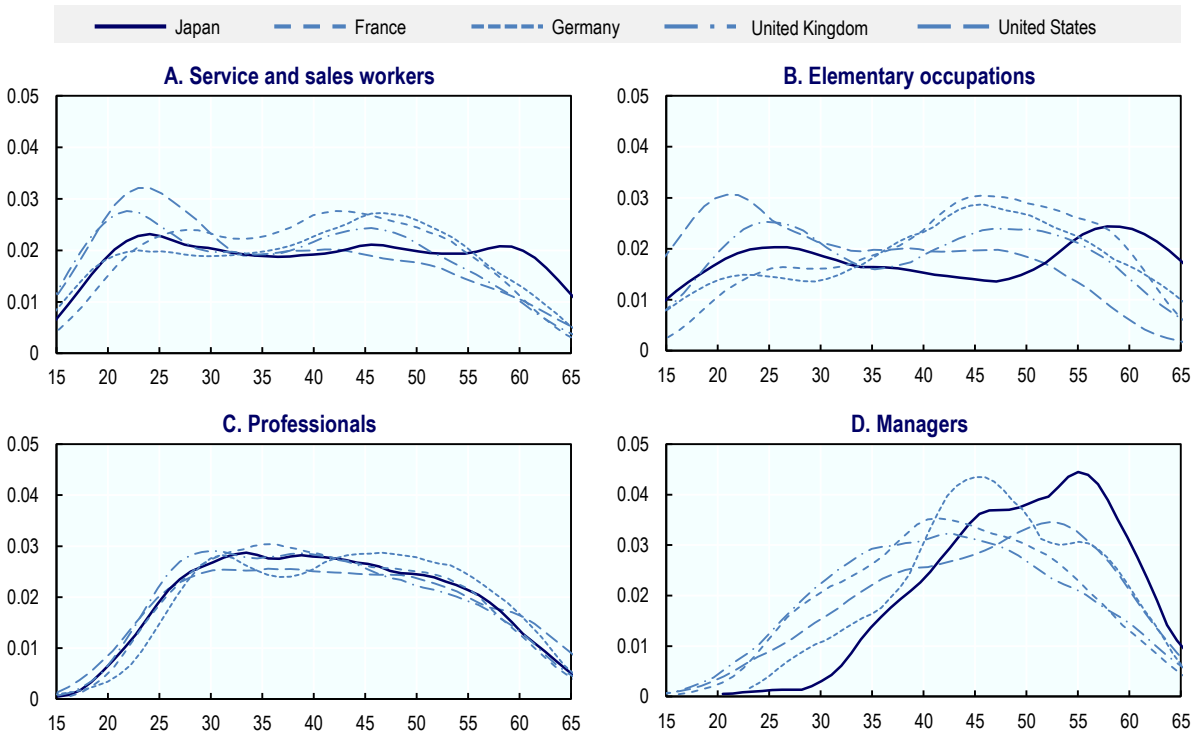
A mandatory retirement age of 60 is typically associated with rehiring workers in jobs with less responsibility and allows firms to cut wages significantly. Firms operating pay scales with large increases in wages in line with job tenure tend to resort more often to wage cuts after the (legal minimum) mandatory retirement age of 60. Some wage reduction may be in line with the older worker's effective productivity. However, in Japan, there is uncertainty over the extent to which wage cuts after age 60 are legal if the job content is unchanged. A further reason is that paying workers differently for the same job may violate feelings of fairness. Wage increases with seniority are much less controversial than wage reductions after the age of 60. Wage increases with age can be justified by workers accumulating valuable experience. Furthermore, younger workers paid less will likely benefit from higher wages in the future also (if they remain with the same firm). By the same rationale, future wage cuts are unpopular not only with the

affected workers, but also with younger workers. Justifying reductions in earnings may be easier when workers are given new (and less demanding) responsibilities. The earnings reductions are typically associated with firms reclassifying workers in different jobs. In practice, workers are mostly demoted to more simple tasks.

Rehiring may reduce productivity if workers are demoted because that is the only option firms see to reduce older workers labour costs independent of individual capacities. The fact that older workers above the age of 60 are frequently rehired leads to a change in occupations which is quite unique internationally, with older workers over-proportionally represented in sectors with low productivity such as the "elementary occupations" (Figure 2.7, Panel B). Skills which are especially valued by older workers – for example their capacity to supervise younger colleagues (see Chapter 4) – are then less likely to be utilised then for workers who continue in their jobs.

Figure 2.7. Worker age profiles by occupation differ across countries

Age distribution by country and occupation, density



Note: Figures depict the smoothed age distribution of workers within a specified 1 digit ISCO 08 occupation group. Data for the United Kingdom refer to England and Northern Ireland.
Source: OECD calculations based on the Survey of Adult Skills (PIAAC) (2012, 2015), www.oecd.org/skills/piaac/

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Employment Protection Legislation in Japan

Employment protection laws can play an important role in increasing the stability and quality of workers' jobs. Nevertheless, overly rigid employment protection laws can diminish employment outcomes for vulnerable social groups, thus compounding existing labour market dualities between younger and prime-age workers; women and men; low-

and high-skilled workers; and regular and non-regular employees (OECD, 2013[3]). In particular, employment protection laws can have an important influence over employers' decisions around hiring and retaining older workers.

The index of protection of permanent workers against individual dismissals in Japan is above the OECD average (Figure 2.8), mainly due to the components of maximum time for claim, length of trial and definition of justified and unfair dismissals (difficulty of dismissal). Even though only a few requirements for dismissal are set in the law, the courts request firms to justify the fairness of redundancies by demonstrating appropriate past efforts to avoid the action (e.g. through in-house transfers or retraining) and by showing that the procedures are reasonable.

Specifically, the Labour Contract Act of 2007 states that any dismissal of workers that "If a dismissal lacks objective, reasonable grounds and is not considered to be appropriate in general societal terms, it is treated as an abuse of power and is invalid". This very general formulation leaves the legal system considerable discretion in applying this standard. Judicial precedents have established four elements to determine whether employment adjustment as a result of corporate downsizing can be deemed an abuse of power by the employer:

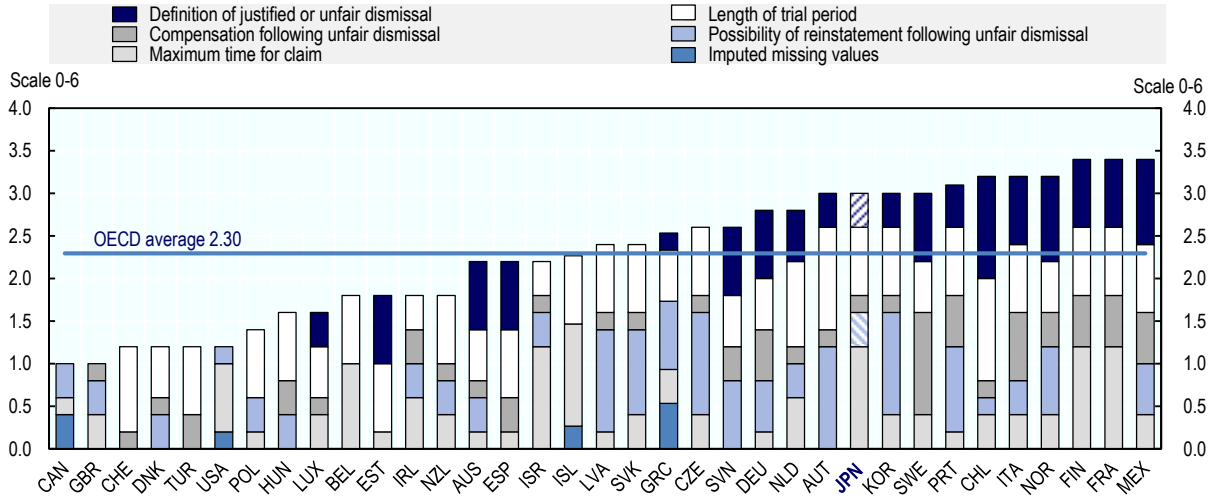
- The employer must establish the economic necessity for reducing its workforce.
- The employer must demonstrate that all reasonable efforts to avoid dismissals (i.e. reducing overtime hours, re-assigning or seconding staff, offering voluntary retirement packages) have been made.
- The employer must establish reasonable and objective criteria for selecting which workers will be dismissed.
- The employer must show that the overall dismissal procedure is acceptable, for example by showing that unions or worker representatives were adequately consulted.

If an employer is judged to have failed to meet these criteria – all of which leave considerable room for interpretation – when dismissing a worker, the dismissal may be rendered invalid. In such cases, the court may order reinstatement with back pay. There is no time limit on when former workers may make a claim of unfair dismissal, although courts have sometimes disallowed complaints filed long afterwards, based on the principle of good faith.

This virtually hinders firms from dismissing staff for economic reasons. As a result, they make widespread use of the mandatory retirement age, which means that labour adjustment is confined to older workers or occurs by turning to non-regular workers.

Figure 2.8. Japan has relatively strong protections for permanent workers

Index of protection of permanent workers against individual dismissals: difficulty of dismissal in OECD countries, 2013 (0=no regulation; 6=detailed regulation).



Note: The figure presents the contribution of different subcomponents to the indicator for difficulty of dismissal. The height of the bar represents the value of the indicator for difficulty of dismissal. For the sole purpose of calculating the indicator of difficulty of dismissal, missing values of specific subcomponents are set equal to the average of other non-missing subcomponents for the same country, excluding the maximum time for claim.

Source: *OECD Employment Protection Database*, http://dx.doi.org/10.1787/lfs-epl-data-en.

StatLink http://dx.doi.org/10.1787/888933890597

A reform of employment practices could raise the hiring and retention of older workers

Further reforms of the Employment Stabilisation Act and mandatory retirement policies are needed

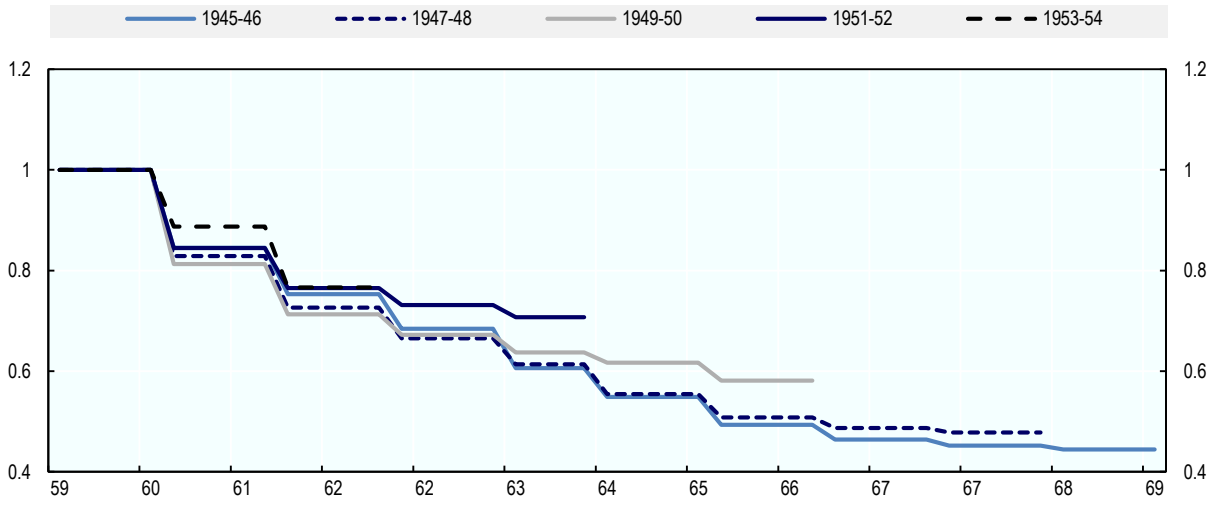
Despite the relative success of government reforms in shifting the standard age for retirement from companies from 55 to 65, the current system has a number of drawbacks. First, mandatory retirement requires firms to dismiss efficient workers whose productivity is still above the seniority-based wage at age 60, while high employment protection forces them to hoard inefficient workers until age 60. Second, the ability to hire retired workers on fixed-term contracts increases participation, but at the same time, the accompanying large declines in wages and poor quality jobs may encourage many workers to leave the labour force. Furthermore, large companies reduce workers' responsibilities in line with the decreased wage level rather than seeking to maintain or increase the productivity of older workers.

Re-aligning the mandatory retirement age with the pensionable age would be a major step forward to encourage firms to retain older workers and provide incentives for firm to invest in training to increase workers' productivity. Evidence suggests that pension policy has a direct impact on people's work decision. OECD analysis using the Longitudinal Survey of Middle-aged and Elderly Persons (LSMEP) suggests that recent pension reforms in Japan have helped to increase the labour force participation of older workers (See Box 2.1 for details on the gradual increase of pension eligible age and continued employment scheme for different cohorts). Figure 2.9 shows that the probability of

employment has increased among younger cohorts as they face an increasing pension age. For example, when comparing the cohort of 1949 to 1950 in which the fixed rate of the pension age and age of continued employment rose from 64 to 65 with the cohort of 1947 to 1948, the employment rate at age 64 increased by 6.5 percentage points.

Other potential factors may have had an impact on this increase in the employment rate, such as macroeconomic conditions and individual specific effects, which are not controlled for. However, several studies report the positive effect of pension policy when controlling for other policy measures such as the Act on Stabilization of Employment of Older Persons (Kondo and Shigeoka, 2017[4]).

Figure 2.9. Increasing pension age has increased the chances of workers staying in the labour market



Note: The survival analysis calculates workers' probability of still being employed at a given age from age 59 by birth-cohort.
Source: Japanese Ministry of Health, Labour and Welfare, *Longitudinal Survey of Middle-aged and Elderly Persons* (2005-2015).

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In general, rising the eligibility age for social security pensions is unpopular with voters so that policy makers tend to avoid the discussion. However, there is an implicit consensus in the Japanese society that the working life should be longer in line with a longer healthy life expectancy given Japanese ethical values to remain in the labour market.

The current proposals on further raising the pension age – as discussed under the Fiscal System Council in the Ministry of Finance (May 2018) – should go hand-in-hand with reform of the mandatory retirement age. In the long run, Japan should consider abolishing the mandatory retirement age as has occurred in many other OECD countries (See Box 2.2 for details). Moreover, recent reforms of the Employment Insurance system which extended the eligible criteria for Employment Insurance (EI) to age 65 and above also bode well for creating a favourable environment for longer working lives.

Box 2.1. Legislative linkage between pensionable age and continued employment system

Japan has a public pension system consisting of two tiers: a basic flat-rate scheme and an earnings-related plan. By 2030, the pensionable age for both schemes will be at 65 and for both men and women. For men, it is already at 65 for the flat-rate component, but for the earnings-related component it will only reach 65 in 2025. For women, it will reach 65 for the basic component in 2018 and will rise to 65 only in 2030 for the earnings related component, beginning in 2018.

Thus, people face different legislative pensionable ages according to their birth cohort and gender as well as the corresponding age for the continued employment system. The table below summarises these ages for the public pension and the continued employment system. This natural policy experiment can be used for the quantitative assessment of the institutional impact of changes in the pension age on employment at older ages.

Table 2.1. Schedule of pension eligible age and continued employed system

Birth year (between April and March)	Continued employment		Pension fixed-rate tier		Pension earnings-related tier	
	Men	Women	Men	Women	Men	Women
1945	60		63	60	60	60
1946	63			61		
1947	64		64			
1948				62		
1949	65		65			
1950				63		
1951						
1952				64		
1953					61	
1954				65		
1955					62	
1956						
1957					63	
1958						61
1659					64	
1960						62
1961					65	
1962						63
1963						
1964						64
1965						
1966						65

Source: Japanese Ministry of Health, Labour and Welfare administrative materials.

StatLink http://dx.doi.org/10.1787/888933891148

Box 2.2. How other countries extend pension age while minimising negative effects on firms' profits and ensuring employment for older people

In Germany, where the employment rate of people aged 60-64 (largely above OECD average in 2016) and 65-69 has strongly risen over the past decade, major pension policy reforms have raised the statutory retirement age, and have limited access to early retirement. Many labour contracts and collective wage agreements are based on the assumption that the labour contract ends no later than the statutory retirement age (which increasing to age 67 by 2030). However, pension reform in 2014 has facilitated temporarily prolonging the employment contract after reaching that age (OECD, 2018[5]). In addition to the effects of pension reforms, the general labour market context of falling unemployment and rising labour shortages have been a driver of higher employment rates for older workers.

In France, mandatory retirement before the age of 70 has been prohibited in the private sector since 2010 and constitutes unfair dismissal. France also took a number of decisive steps to raise the statutory retirement age and to restrict access to early retirement. The long-career scheme introduced in 2003 is the main early retirement measure that remains. Since 2012, this scheme allows workers to qualify for long-career early retirement at 60. In addition, options still exist for retirement before the statutory minimum age. First, there are so-called "active" categories in the public service and special schemes, which are defined by decree and include occupations involving arduous work or a particular risk. The 2013 pension reform created the individual arduous work account in order to enhance early recognition of arduous work rather than simply reward it at the end of a worker's career through an early retirement option. Compared with Japan, Germany, the United States and the United Kingdom, the net replacement rate of pensions is higher in France (near the OECD average) (OECD, 2017[6]).

Sweden, where the employment rate of older workers (55-64) is higher than in Japan, has no fixed statutory retirement age. Major reforms of the public pension system dating back to 1999 (and becoming fully operational in 2003) allow for flexible and actuarially neutral retirement from the age of 61 for both men and women. As a result of the pension reform of 1999, a person can withdraw a full or partial pension after this age and continue to work full time. The number of pension recipients who are working increased considerably between 1997 and 2012. While in 2012, the share of the population aged 55-69 reported combining pensions and work was the highest among 21 EU countries (OECD, 2017[6]), the share of pensioners who reported they were continuing to work for financial reasons was among the lowest in the EU (Eurofound, 2016[7]). Unlimited deferral of retirement is possible in the pension system with automatic actuarial adjustments, but the employer's consent is required after the age of 67 (this age limit will be increased to 69) (OECD, 2018[8]). Note, however, that the employment rate of 65-69 years old in Sweden is slightly below OECD average, and markedly below the one of Japan.

Overhaul of the Seniority wage system

As highlighted above, Japanese companies are beginning to offer wage contracts to workers according to their duties while weakening the seniority elements. Larger companies are shifting away from the seniority system, and job-duty is given more weight in determining a firm's basic wage. However, greater efforts are needed to weaken

the link between compensation and seniority in order to fully reap the benefits of the increase in the pension age and mitigate the negative externalities from premature labour force exit and a shrinking labour force.

The Japanese Ministry of Health, Labour and Welfare (MHLW) provides subsidies to help Small and Medium-sized Enterprises (SMEs) incorporate worker performance and ability into their wage and personnel systems. The subsidy called *Jinzai Kakuhotou Shien Zyoseikin (Jinzai Hyoka Kaizentou Zyosei course)* was established in 2018 and is provided to encourage firms to establish a personnel evaluation system that is not based on regular and automatic pay raises but on workers' vocational ability. Under this scheme, employers receive an initial amount of (JPY 500 000, around EUR 3 850) upon submitting their personnel evaluation reform plan to the local labour bureau. The plan must focus on vocational ability. Subsequently, a plan must put stress on vocational ability and the total wage cost of permanent and permanent-equivalent workers should be projected to increase by 2% a year later. Subsequently, a second subsidy (JPY 800 000, around EUR 6 150) is provided if firms' labour turnover rate is actually decreased by 1% point, while total wage cost is increased by 2% points a year after their application and labour productivity by 6% points three years after their application.

There is no data available on the take-up of the subsidy though the current design suggests that employers could be discouraged as the preparation of the application is burdensome and complicated. Furthermore, the subsidy requirements seem to exclude older workers in the calculation of total wage cost because one of the conditions requires firms to show over 2% change in total wage cost of permanent and permanent-equivalent workers aged 25-60 compared to their previous year's total wage cost. Potentially, firms can offset this cost increase by lowering the wage level of rehired older workers, which may widen the wage separation between permanent workers and older workers. In addition, employers have to wait for three years after the personnel change to get the second subsidy. The government should monitor barriers to high take-up including the eligibility criteria, and assess the effectiveness of the newly established subsidy to minimize deadweight losses.

Among other support, JEED (Japan Organisation for Employment of the Elderly, Persons with Disabilities and Job Seekers) also provides a consultancy service to employers to help them change their seniority wage system. To encourage firms to hire workers beyond 65 or increase the mandatory retirement age beyond 65, contracted consultants at JEED provide firms with recommendations on a broad range of personnel management reform, such as evaluation schemes, wage design (away from a seniority-based system towards a job-related/competency-related wage system), workplace improvement, and training/health management.

Ultimately, wage policy is determined primarily by the social partners. The levers for action available to the authorities in terms of fixing wage are therefore limited. However, 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 (see Box 2.3).

Box 2.3. Country examples of wage-setting reforms in the public sector

In Croatia, an Action Plan 2015-16 for regulating of the wage system in the public sector was adopted in July 2015 establishing a system of objective and impartial evaluation for motivating and/or sanctioning civil and public servants for their work and rewarding employees based on ratings, as well as enabling a change of pay grades without formal career promotions. In Hungary, in the public sector the principle of seniority continues to exist, but newly established career schemes emphasise personal competencies and efficiency rather than age, time served or automatic wage progression.

Finland is another good example of this policy. Since 1994, a New Pay System (NPS) has been gradually adopted for central government employees. It was mainly developed during 2003-06 and was finalised in 2007. The NPS was introduced through a collective labour agreement including, as an essential part, the salary tables for job demand levels and personal performance levels. Its purpose was to decentralise pay and to manage staff by objectives. In 2008 the pay system was further developed and improved within the framework of collective and sector labour agreements. Also in the local government sector, an individuals' wage is determined by work experience, individual competence and work performance. However, in 2013 about still 6.5% of total pay by the local government was still linked to the length of service (OECD, 2018[9]).

Encouraging firms and the public sector to engage more in so-called "secondary hiring" may also help, i.e. hiring workers at different points in their careers and not only immediately after college. Since graduate hiring is the modus operandi of the largest corporations with particularly well-paid jobs, the system restricts career options for individuals who choose not to join large firms after education. Hiring at different points over the lifecycle would allow workers to put firms into competition to each other. Currently, younger workers accept lower pay in exchange for a promise of higher pay in the future. With more competition across firms, workers may be able to negotiate for higher wages and better working conditions at younger ages. Higher wages for younger workers may then be a step towards loosening the role of tenure in pay scales. The public sector could for example provide an impetus by hiring at different ages. Removing institutional obstacles for workers to change jobs in their mid-career would be also important. Currently, tax deductions on a worker's retirement allowance rise disproportionately after 20 years of tenure discouraging workers to change their employers before this limit. To facilitate labour mobility in mid-career, the government should remove the kink in the tax deductions at 20 years of tenure.

Finally, the government legislated Equal Pay for Equal Work as part of an agenda to modernize the labour market under the motto "Workstyle reform". On the one hand, the principle of equal pay for equal work may lead to a reform of strongly seniority-based pay schedules, increasing the role of performance-based pay. On the other hand, there is a risk that it may further cement the strong and sudden downgrading of the jobs of workers after reaching the age of 60 if there would be a possibility that substantial pay cuts can be justified by a corresponding modification of the job tasks and taking into account other working conditions.

Simplifying employment protection legislation for permanent workers

Together with the seniority wages, unless the employment protection rules are reformed, employers will continue to resist raising the mandatory retirement age. The key problem of employment protection in Japan is not its strictness but its ambiguity. The unpredictability of judicial procedures to review ex post employment adjustment increases the cost and uncertainty for firms, thus discouraging them from hiring workers on indefinite contracts. Indeed, international evidence demonstrates that the creation of temporary jobs is a common response by firms to high costs of reducing permanent jobs. (Kahn, 2010[10])

Moving forward, it would therefore be particularly important to clarify the conditions under which companies can dismiss workers on permanent contracts for economic reasons. Such reforms were recently undertaken in both Spain and France. In Spain, since the 2012 labour market reform, a dismissal is always justified if the company faces a persistent decline (over three consecutive quarters) in revenues or ordinary income. In addition, and perhaps more importantly, the firm does not have to prove that the dismissal is essential for the future profitability of the firm (OECD, 2014[11]). In France, since the 2016 labour market reforms, a dismissal on economic grounds will be justified if sales or orders fall for: four consecutive quarters in comparison to those of the previous year for firms with 300 or more employees; three consecutive quarters for firms with at least 50 but fewer than 300 employees; two consecutive quarters for firms with at least 11 but fewer than 50 employees; and one quarter for firms with fewer than 11 employees.

Finally, it is important to reduce the gap of employment protection between regular and non-regular workers in order to reduce employer's incentives to rehire workers on short term contracts. This could include a reduction in employment protection for regular workers, even though this is difficult to implement in practice. In some European countries, it has been achieved through grandfathering – allowing current workers to keep current levels of employment protection but not newly-hired workers (OECD, 2017[12]). Another option would be to compensate regular workers for a reduction in employment protection through reforms that also accomplish the goal of improving work-life balance. For example, regular workers could be given additional leave, the right to refuse involuntary relocations and a reduction in overtime work. Such measures would reduce the incidence of "karoshi" (death caused by overwork), an issue of concern in Japan.

Age management policies and age discrimination

Towards better practices on age discrimination

Unlike many other OECD countries, Japan does not have general age discrimination legislation. Currently, discrimination on the basis of age is ruled out during recruitment by the Employment Measure Act enacted in 2007. Under this requirement, employers cannot set age limits in job offers in principle. When they need age limits, employers have to explain the reasons for the provision.

To the extent that employers have stereotypical views of older workers, this could give rise to age discrimination in hiring, firing, compensating, training and promoting older workers (OECD, 2006[13]). Further efforts should be made for the prevention of age discrimination and to change the attitudes of employers towards older workers. For example, comparing the recent situation in four OECD countries (France, Netherlands, Norway and Switzerland), these initiatives include legislation (except in Switzerland), awareness campaigns, development of "tool kits", promotion of best-practices as well as

consultation and co-operation with the social partners (Sonnet, Olsen and Manfredi, 2014[14]).

Some countries have revisited legislation to better tackle age discrimination issues. This is particularly the case of Sweden. A new act that entered into force in 2009 prohibits discrimination on the grounds of age. The Discrimination Act applies to working life, educational activities, labour market policy activities, employment services not under public contract, the hiring policies of those starting or running a business, professional recognition, and membership of certain organisations. The Equality Ombudsman is charged with monitoring compliance with the act. The Ombudsman's tasks also includes raising awareness and disseminating knowledge and information about discrimination and the prohibitions against it among both those who risk discriminating against others and those who risk being subjected to discrimination. Also in Ireland, the Equality Mainstreaming Approach initiative, managed by the Irish Human Rights and Equality Commission and involving the social partners, facilitates and supports institutional change within providers of vocational education and training, labour market programmes and SMEs.

Age management: good practice from other OECD countries

Promotion of age management policies in Japan is also limited compared to other OECD countries. There is ample evidence suggesting that age management policies can help older workers to improve their productivity and support their retention. Research and the collection of best practice examples, which have been carried out mainly since the 1990s, have shown that holistic age management approaches, including work organisation, training, health measures, working time policies and other measures are the most valuable. These studies demonstrate a positive link between the quality of work and workers' productivity.

Going forward, Japanese government could develop tools and schemes that support employers especially SMEs similar to that in other OECD countries. Notably in Germany, the United Kingdom, United States and France, companies have put into practice age management strategies aimed at avoiding a decline in productivity, maintaining or improving the productivity of their older workers. Many of these initiatives require collaboration between firms, social partners and the Government to reap their full benefits (See Box 2.4 for details). More concretely, the Japanese Government should consider developing a tripartite body or an overarching committee including a range of stakeholders at the national level to assess the current landscape of age management policies and make recommendation on better workplace practices and reforms of wage setting.

Box 2.4. Promoting age management strategies to keep older workers productive – experiences from OECD countries

Initiatives by firms, social partners and governments in various OECD countries highlight the opportunities of active age management across economies, industries or for individual firms.

1) Since 2007, the German car producer BMW has been developing an innovative, bottom-up approach for improving productivity in light of workforce ageing that is now being applied in plants in the United States, Germany and Austria. This

initiative was developed in BMW's power train plant in Dingolfing. In the most labour-intensive lines of production, health care and skill development were promoted, alongside the workplace environment and more access to part-time was granted. As a result, productivity increased by 7% in one year, erasing productivity differences with other plants with younger staff (Christoph et al., 2010[15])These results are in line with (Börsch-Supan and Weiss, 2016[16]) who find individual productivity increases in a large car manufacturer in Germany until age 65. While older workers are slightly more likely to make errors, they hardly ever make severe errors.

2) A collective agreement for the construction industry in Switzerland put in place arrangements for early retirement at a higher age than the usual exit age in the sector. As a result, more workers continue in employment later in life and employers have been improving working conditions (OECD, 2014[17]).

3) In the German chemical industry, the social partners signed a collective agreement "lifelong working time and demography". The agreement covered training, skill development, work organisation and lifelong working time models. The agreement obliged all companies to analyse their age structure as a starting point for company-specific age management strategies. To finance measures such as gradual retirement schemes, health, training programmes and other schemes promoting a good work-life balance, demography funds were also set up, financed by firms with EUR 300 per staff member per year. The use of the funds is negotiated at the firm and workplace level with the works councils (Latniak et al., 2010[18]).

4) Norway's Inclusive Workplace Agreement (IA Agreement) is a central framework for tripartite co-operation between social partners and the government on age management (OECD, 2013[19]), encouraging companies to develop a more senior-friendly policy and implement special measures to retain older workers. It was launched in 2001 and has been renegotiated every four years since then. The agreement has three goals: i) a 20% reduction in sick leave; ii) increased employment of people with reduced functional ability; and iii) extending the effective labour force exit age for an employee aged 50 by six months compared with 2009. In 2012, 58.4% of Norwegian employees worked in firms with an IA Agreement.

5) In France, the government passed a law obliging companies to develop an age management action plan or to conclude collective agreements at the sector or enterprise level in order to keep older workers in employment. The action plans cover recruitment, career development, working conditions, training, knowledge-transfer and mentoring. However, the implementation of age management measures remains weak (OECD, 2014[20]).

6) In 2010, the Australian Government introduced a Productive Ageing Package to reduce barriers to employment for older workers. One component of the initiative included the creation of the Consultative Forum on Mature Age Participation, which concluded its work in 2012. The forum, made up of representatives from diverse social partners, shared best practices and recommendations for supporting older workers in the workforce through various publications, some of which specifically for employers.

Summary and Recommendations

Japan has made considerable efforts in recent years to address both supply-side as well as demand-side measures to encourage older people to remain in work longer. While past reforms have been successful in expanding employment opportunities for older workers, they have also allowed firms to adjust their workforce by re-hiring some older workers in low paid and low productive jobs. There is still scope for further action in the areas of employment protection legislation, pay practices and mandatory retirement policies to effectively increase the duration and quality of working lives.

Box 2.5. Key Recommendations

- 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 that 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 eliminate the transition of older workers 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.

Note

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Chapter 3. Skills development and activation in Japan

Maintaining and developing the skills of workers throughout their working lives is essential to ensure they continue to have good employment opportunities at an older age. For Japan, the challenge is two-fold. First, its system of continuous vocational training needs to be strengthened to ensure workers can use and upgrade their competencies and skills throughout their careers. Second, employment services and active labour market policies will need to play a more important role in helping workers to make successful employment transitions, especially after retiring from their main jobs.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Japan needs to promote training throughout working lives

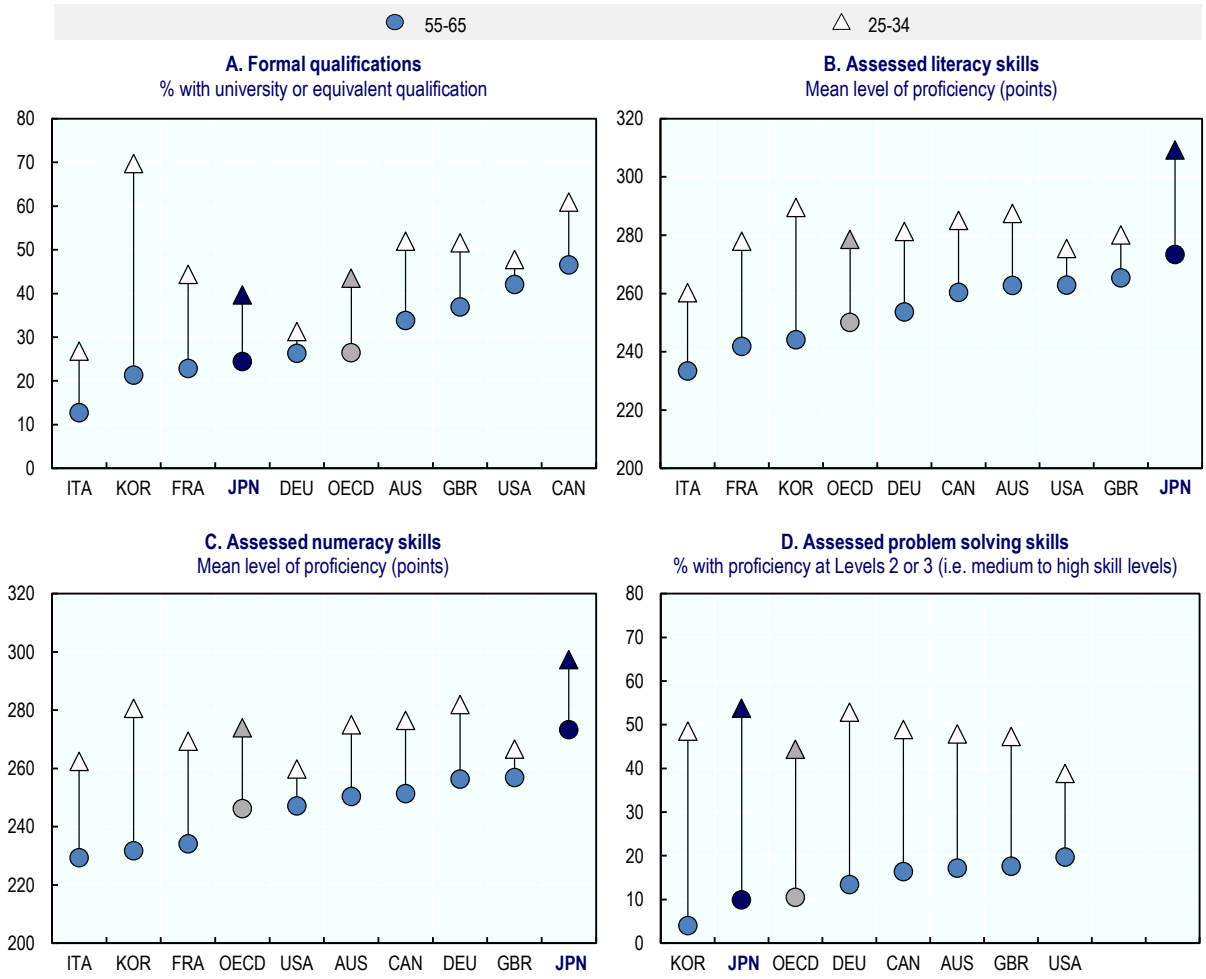
The skills of older workers and how they are utilised are key determinants for the productivity of workers and companies. This section gives an overview of the skills of older workers. Several factors determine how skills evolve over the life cycle. A key determinant is the skills obtained at a younger age through education and training as well as those skills acquired through participation in further training. The learning content of jobs also has an important impact on skills development over the life cycle. Some skills are likely to decline over age, although experience may compensate for this decline.

The skills of older people in Japan will rise over the next 30 years but need to be strengthened in some dimensions

A proxy measure of the level of skills that people have is their level of educational attainment. A higher level of educational attainment generally implies a higher level of skills. Currently, many older Japanese have no formal qualifications above a high-school level. The proportion of older people in Japan aged 55-64 who have a university-level (tertiary) qualification is slightly below the OECD average and well below the proportion in Canada and the Unites States (Figure 3.1, Panel A). This is also true for younger Japanese people even though educational attainment has been rising for successive generations of Japanese. Therefore, in 30 years time, the propoprtion of older people in Japan with a university-level qualification will be higher than today but it is likely to remain below the OECD average and well below the level in Korea.

In contrast to their formal qualifications, results from the OECD's Survey of Adult Skills (PIAAC) suggest that Japanese adults have strong foundation skills in terms of literacy and numeracy relative to adults in other large OECD economies (Panels B and C). This is true for both younger and older people in Japan, so that older people in Japan are likely to continue to enjoy this comparative advantage for at least the next 30 years. However, in terms of problem-solving skills in a technology-rich environment (i.e. solving problems in a simulated internet environment), relatively few older Japanese were assessed as having medium to good skills (Panel D). This could put them at a disadvantage in the context of rapid change in Information and Communication Technology (ICT). Nevertheless, the proportion of younger Japanese with medium-to-good skills in problem solving in a technology-rich environment was assessed to be high relative to other large OECD economies. Therefore, tomorrow's generation of older workers are likely to be better prepared for the digital economy than the current generation.

Figure 3.1. Skill levels of older (55-65) and younger (25-34) people



Note: In Panel A, the older age group refers to people aged 55-64 not 55-65; for Panel D, the data refer to problem solving skills in a technology-rich environment. The OECD average excludes Hungary, Iceland, Latvia, Luxembourg, Mexico, Portugal and Switzerland. Data for the United Kingdom refers to England.
Source: Panel A: *OECD Dataset on Educational Attainment and Labour Force Status*, http://stats.oecd.org//Index.aspx?QueryId=76794 and the Japanese Labour Force Survey; Panels B-D: Survey of Adult Skills (PIAAC) (2012, 2015), www.oecd.org/skills/piaac/.

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With advances in technology and automation, jobs and activities outside of work increasingly involve sophisticated tasks, require analysing and communicating information. Hence, poor proficiency in information-processing skills not only restrains employment opportunities but also limits access to many services. More than ever, lifelong learning is of key importance, for all workers in all kinds of jobs. Workers in low-technology sectors and those performing low-skilled tasks must learn to be adaptable, because they are at higher risk of losing their job, as routine tasks are increasingly performed by machines, and companies may relocate to countries with lower labour costs. In high-technology sectors, workers need to update their competencies and keep pace with rapidly changing techniques. The job prospects of older workers will be

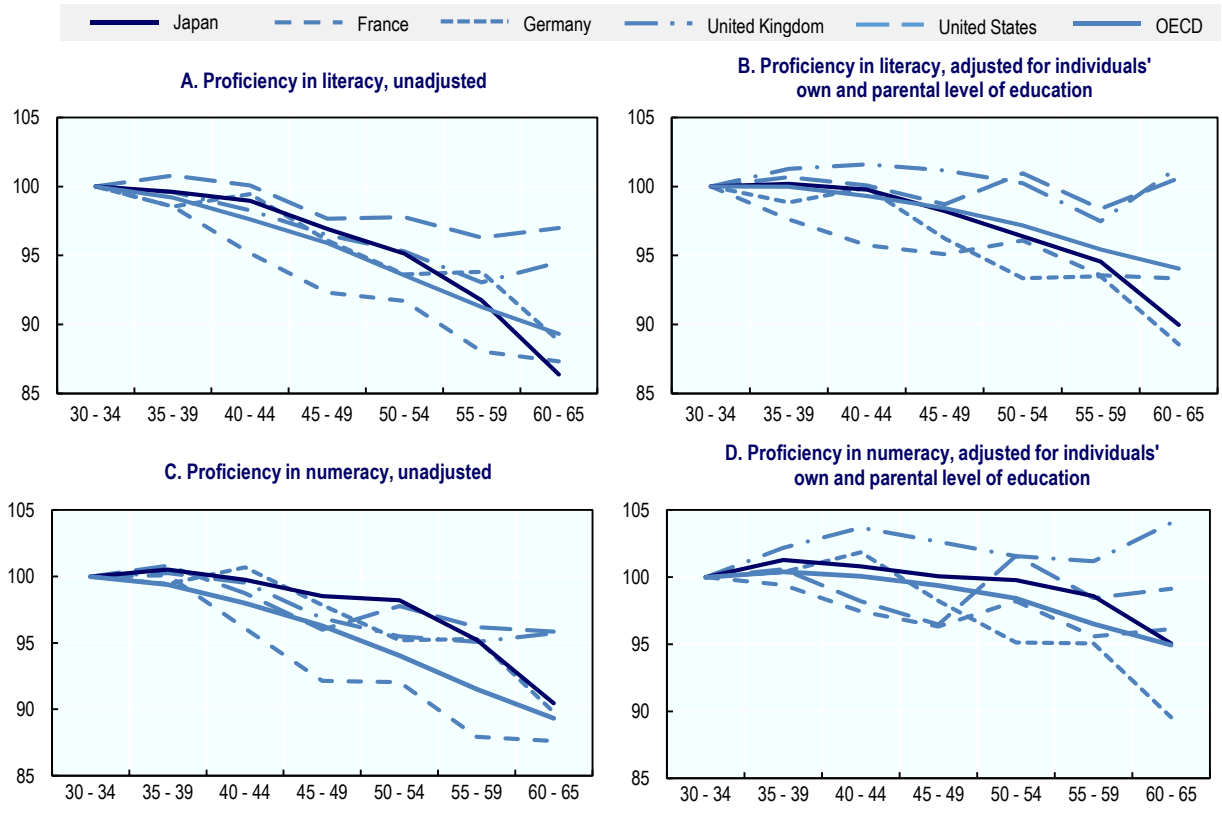
increasingly dependent on the skills they have acquired and kept up to date over their careers.

Skills levels decline steeply at older ages in Japan

In all countries there is some evidence of a decline in cognitive skills by age. However, the decline in both literacy and numeracy proficiency scores appears to be steeper in Japan than in some other OECD countries even when controlling for differences across age cohorts in individuals' own and parental level of education (Figure 3.2). This could adversely affect the ability of some older workers to learn new things. It may also point to issues of a lack of learning opportunities both on and off the job at younger ages.

Figure 3.2. Literacy and numeracy skills of Japanese decline steeply at older ages

Index, age group 30-34 = 100



Note: The OECD is a weighted average and excludes Hungary, Iceland, Latvia, Luxembourg, Mexico, Portugal and Switzerland. Data for the United Kingdom refer to England and Northern Ireland. For Panels B and D, the estimated levels of proficiency control for individual differences in own and parental educational attainment.

Source: OECD calculations based on the Survey of Adult Skills (PIAAC) (2012, 2015), www.oecd.org/skills/piaac/.

StatLink http://dx.doi.org/10.1787/888933890654

Skills of Japanese workers are underutilised

Making good use of the skills that workers have not only improves their productivity but can also help to prevent a depreciation of these skills with age. However, the PIAAC data

on skill proficiency and skill use at work suggests that the skills of both younger and older Japanese workers are not fully utilised (Figure 3.3). While they have relatively high numeracy and literacy skills, this does not translate into higher use of these skills at work in comparison with other major OECD economies. For example, the literacy proficiency of older people in Japan is considerably higher than in the United States (Figure 3.1, Panel B) but the use of reading skills at work (i.e. the frequency of performing various tasks involving reading) by older Japanese workers is lower than for older American workers (Figure 3.3, Panel A).

The PIAAC data also suggest that the use of ICT and problem-solving skills by older workers is particularly weak in Japan (Figure 3.3, Panels C and D). The comparative situation of prime-age workers (aged 25-54) in Japan is not much better, although they record higher skill use on average than older workers, as in other countries. This suggests that Japanese workers of all ages will need to be better prepared for an increasingly digitalised economy.

The gap in skill use between prime-age workers and older workers is large in Japan relative to most other large OECD economies, with the notable exception of Korea. This gap remains even when controlling for differences in education and skill proficiency. It is also not accounted for by the more intensive use of other skills by older Japanese workers. As discussed in Chapter 4 (see Figure 4.6), there is also a large drop-off after the age of 60 in the use of supervising, planning and influencing skills. One explanation for this is that Japanese older workers move into less demanding positions prior to retirement (see Chapter 2). Another reason is that they do not get sufficient further training over the life course.

High-performance work practices can boost skill use and promote training

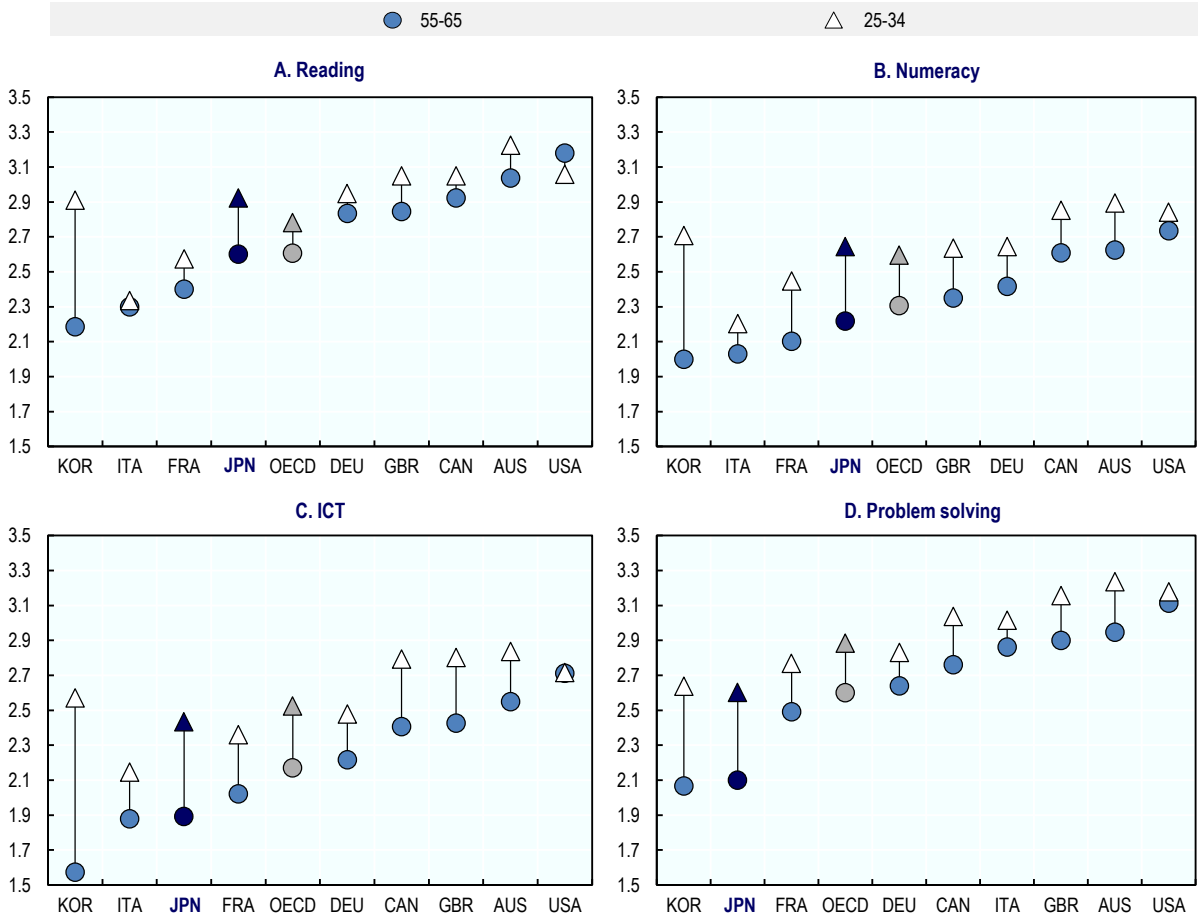
Not fully utilising the skills that workers have represents a loss of learning opportunities as well as a loss of potential productivity gains. Research points to the impact of work organisation on the learning potential of the workplace (for a literature review see e.g. (Vaughan, 2008[1])). High-performance work practices (e.g. the use of teamwork, performance pay, etc.) contribute to higher skills use at work (OECD, 2016[2]) and promote workplace learning (Ashton, 2002[3]).

Multi-skilling and the use of self-managed work groups have a positive impact on workplace related learning (Cedefop, 2010[4]) Furthermore, the learning environment varies with the type of tasks and with the type of work organisation (see e.g. (Ashton, 2002[3])). Basically, it is argued that "tayloristic" forms of work organisation diminish the learning capacities of workers and offer few learning opportunities. The opposite occurs when workers have greater autonomy and are able to concentrate. Research in the area of industrial sociology and training further shows that workplace-based learning and learning on the job contribute importantly to the skills of workers (Meil, Heidling and Rose, 2004[5]).

Based on the results of the PIAAC survey, it was estimated that only about 25% of workers in Japan were employed in jobs involving high-performance work practices compared with almost 30% in the United States and close to 40% in Sweden (OECD, 2016[2]). Therefore, there is scope in Japan through changes in work organisation to foster greater skill use of workers and better learning opportunities. This would help older workers ensure they have the skills required by employers and can more fully use these skills. A range of country initiatives to promote the development of high-performance work practices is summarised in (OECD, 2016[2]).

Figure 3.3. Skill use at work by older (55-65) and prime-age (25-54) workers

Index, ranging from a low of 1 (not used) to 5 (used daily)



Note: In Panel A, the older age group refers to people aged 55-64 not 55-65; Panel D: the data refer to problem solving skills in a technology-rich environment. The OECD average excludes Hungary, Iceland, Latvia, Luxembourg, Mexico, Portugal and Switzerland. Data for the United Kingdom refer to England.
Source: Panel A: *OECD Dataset on Educational Attainment and Labour Force Status*, http://stats.oecd.org//Index.aspx?QueryId=76794 and the Japanese Labour Force Survey; Panels B-D: Survey of Adult Skills (PIAAC) (2012, 2015), www.oecd.org/skills/piaac/.

StatLink http://dx.doi.org/10.1787/888933890673

Participation of workers in training at mid-career and older ages is low in Japan

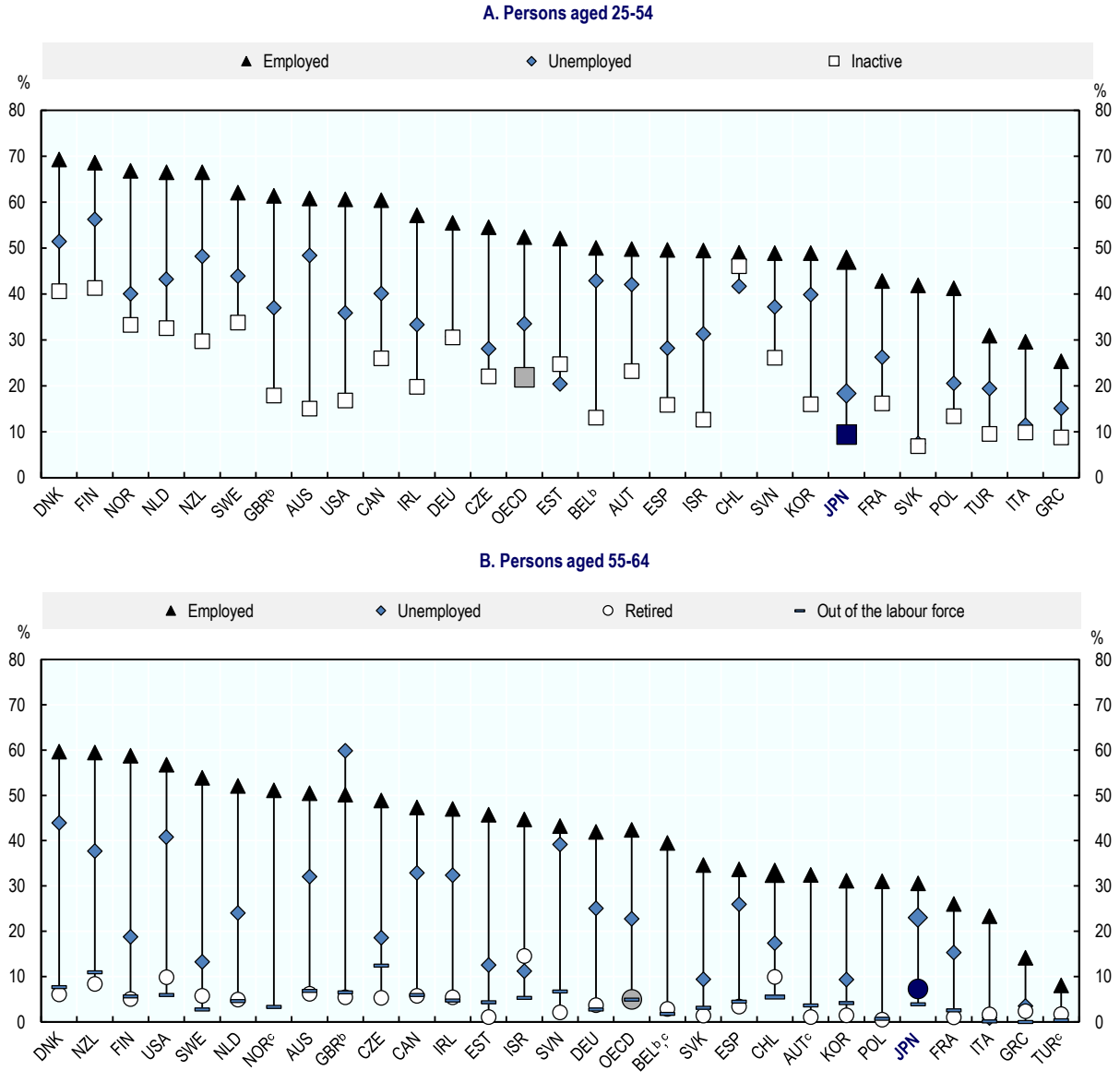
The job prospects of older workers not only depend on the skills they have acquired early on in their lives but also on the extent to which they have kept these skills up to date over their careers. A well-functioning system of lifelong learning helps workers to adjust to changes in the labour market and contributes to the productivity of firms. This is becoming increasingly important in the context of the rapid digitalisation of the economy and longer working lives over which workers may have to change jobs more frequently.

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 among OECD countries which participated in the PIAAC survey (Figure 3.4). Japan obtains a middle ranking in the case of older unemployed but remains close to the bottom for inactive prime-age persons.

Figure 3.4. Participation in job-related training is higher for employed than for unemployed and decreases with age

Share of adults who participated in job-related training by employment status, 2012 or 2015[a].



Note: The OECD is an unweighted average.

a) Year 2015 for Chile, Greece, Israel, New Zealand, Slovenia and Turkey; for all other countries, 2012.

b) Data for Belgium refer only to Flanders and data for the United Kingdom refer to England and Northern Ireland jointly.

c) No estimates of participation in training for the unemployed aged 55-64 are shown because there are not enough observations to generate reliable estimates.

Source: OECD calculations based on the Survey of Adult Skills (PIAAC) (2012, 2015), www.oecd.org/skills/piaac/.

StatLink http://dx.doi.org/10.1787/888933890692

Data on investment in training also suggests that Japan invests less than some other countries. In 2010, the investment in human capital made by Japanese companies was considerably lower than in Germany and the United States (MHLW, 2015[6]). Investments made by firms in off-the-job training (OFF-JT) have dropped sharply in Japan over time as the share of non-regular workers in total employment has risen.[1]

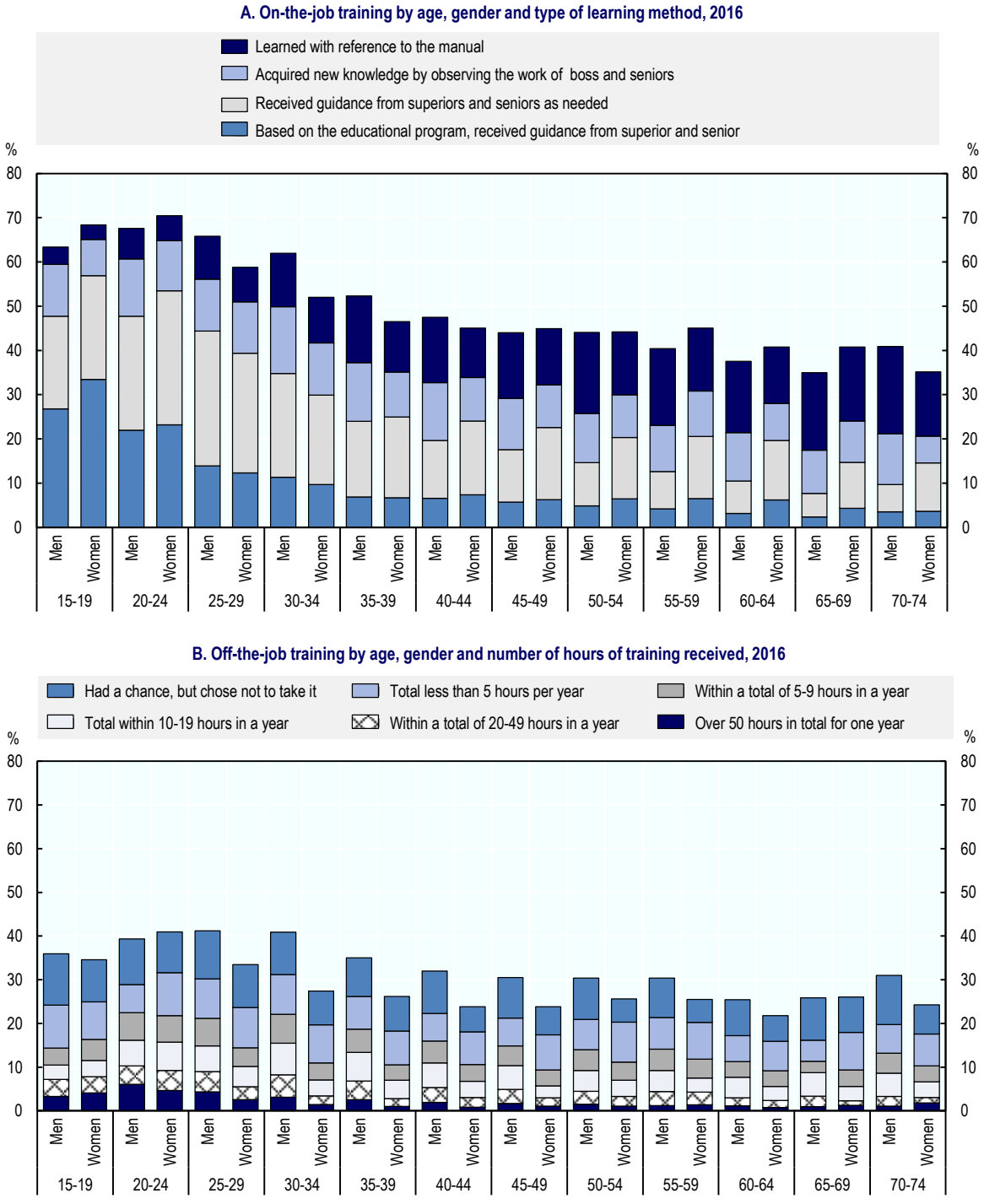
Older women are receiving more often on-the-job training and less often off-the-job training than men

A key feature of Japan's training system still consists in the predominance of on-the-job training (OJT), mainly for young people, which is provided in-house in large companies. The system gives flexibility for mobility of regular workers within large firms, mainly in the first half of their careers, but not between firms as it is difficult for workers to obtain recognition of the skills they have acquired through this informal type of learning.

A closer look at participation in training by age, gender and type of training received in Japan shows that older women aged 55-69 are more likely than older men to participate in on-the-job training. After age 35 participation in OJT decreases markedly for both men and women, which can be a result of the fact that workers have already learnt much of what they need to know for their jobs (Figure 3.5, Panel A). After the age of 40, participation in OJT declines more for men than for women. One reason for the relatively higher participation of women than men in training at mid-career and older ages may be linked to return to work after child-rearing breaks. The type of learning method also varies by age and gender. Older workers tend to learn more often while using a manual than younger ones. Older women more often receive guidance from superiors and seniors, while older men tend to learn more often by observing the work of boss and seniors.

The Basic Survey of Human Resources Development 2015 asks firms about what kind of agencies are used to provide OFF-JT for their employees. The result (based on multiple-answer) shows that most of OFF-JT for regular workers[2] is provided by firms themselves (75.0%). This is followed by private educational training facilities (46.0%), affiliated companies (26.6%), public vocational training facilities (5.2%) and technical college and university (1.9%).

Figure 3.5. Participation in on-the-job and off-the-job training decreases with age



Source: Japanese Panel Study of Employment Dynamics (JPSED) provided by the Recruit Works Institute for Japan.

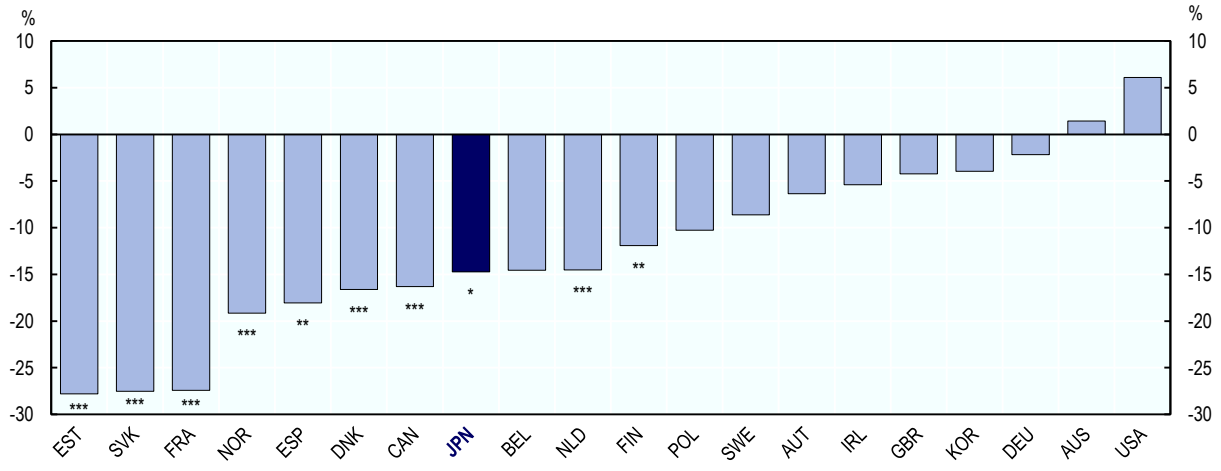
StatLink http://dx.doi.org/10.1787/888933890711

Non-regular workers receive less training

As in other OECD countries, non-regular workers are less likely to receive employer-sponsored training than regular workers. However, data from the Basic Survey of Human Resources Development in FY 2015 show that the gap in training is substantial in Japan. The proportion of companies providing on-the-job trainng (OJT) for regular employees was 62%, and for non-regular employees it was 31%. The share of companies providing OFF-JT for regular employees was to 72%, while the corresponding share for non-regular workers was 34% (JILPT, 2017[7]). Thereare several possible reasons for this. First, the expected rate of return to training may be lower for non-regular workers relative to regular workers because they are expected to remain less time in the company. Second, non-regular workers are more concentrated in sectors which have lower than average rates of training. Third, company size may play a role. Most non-regular workers in Japan are employed in SMEs. SMEs often have fewer capacities to invest in training than large companies and are less likely to have strategic human resource development approaches. Fourth, investment in training of workers is traditionally linked to the life-time employment model in the case of Japan.

Figure 3.6. Temporary workers and employer-sponsored training

Estimated percentage effect of temporary contract status on the probability of receiving employer-sponsored training, 2012



***, **, *: significant at the 1%, 5%, 10% level, respectively – based on robust standard errors.
Note: Estimated percentage difference between temporary and permanent workers in the probability of having received training paid for or organised by the employer in the year preceding the survey, obtained by controlling for literacy and numeracy scores and dummies for gender, being native, nine age classes, nine occupations, nine job tenure classes and five firm size classes. Data are based only on Flanders in the case of Belgium and England and Northern Ireland in the case of the United Kingdom.
Source: OECD calculations based on the Survey of Adult Skills (PIAAC) (2012, 2015), www.oecd.org/skills/piaac/ as reported in the *OECD Employment Outlook 2014*, http://dx.doi.org/10.1787/empl_outlook-2014-en.

StatLink http://dx.doi.org/10.1787/888933890730

However, even when controlling for a number of these factors as well as differences in numeracy and literacy proficiency, the gap in training between workers on temporary contracts and those on permanent ones persists in Japan and is relatively large compared with the gap in other countries (Figure 3.6). For example, the gap is much lower in

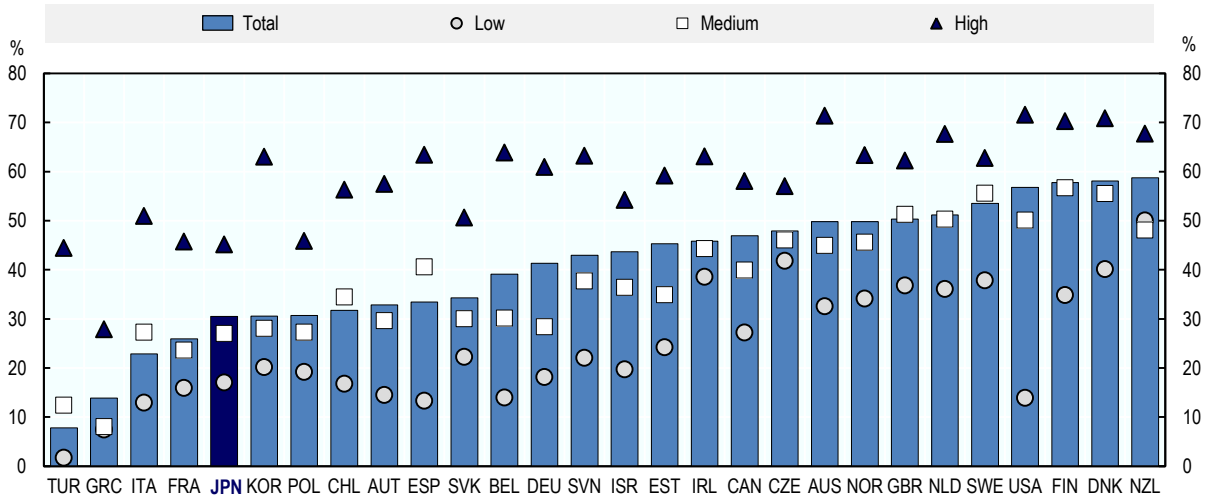
Germany, Korea and the United Kingdom, or even positive in Australia and the United States. Reducing this gap could help many non-regular workers in Japan to obtain more training which could facilitate their transition to better quality jobs and more sustainable employment at older ages.

Participation in further training increases with educational level

As in other OECD countries, high-skilled workers in Japan tend to participate more often in work-related training[3] than the low skilled. In general, people who have already built up a substantial stock of human capital learn more easily and their rates of return to learning tend to be higher. Nevertheless, the share of high-skilled older workers who participated in training is much lower in Japan than in most other OECD countries (Figure 3.7). Older low-skilled Japanese workers are at a particular disadvantage with respect to training, as less than 20% of them reported in 2012 that they had participated in training during the previous year.

Figure 3.7. Work-related training by skill level, 2012 and 2015[a]

Share of older employed workers (55 to 65) who participated in job-related training in the past 12 months



Note: Data for Belgium refer to Flanders and data for the United Kingdom refer to England and Northern Ireland.
a) Year 2015 for Chile, Greece, Israel, New Zealand, Slovenia and Turkey; for all other countries, 2012.
Source: OECD calculations based on the Survey of Adult Skills (PIAAC) (2012, 2015), www.oecd.org/skills/piaac/.

StatLink http://dx.doi.org/10.1787/888933890749

Identifying training needs is important

The need to train workers over the whole working life cycle rests on the continuous adoption of new technologies and forms of work organisation which are changing the skills needed in jobs. Training needs are also linked to changing jobs, functions or duties within the company. In many cases training needs to be identified. Good practice among companies starts with identifying skills needs through dialogue with employees, e.g. through regular performance dialogue and mid-career interviews which take a more strategic view (see Box 3.1). The training of human resource management staff to

increase their sensitivity towards older workers is also a good practice. It is also important to ensure that managers have accurate perceptions about the value of training both mid-career and older workers (Lindley and Duell, 2006[8]; Duell, 2015[9]). Conducting mid-career interviews is one instrument to detect skills needs and thus training needs of workers.

Box 3.1. Identifying training needs of mid-career and older workers in OECD countries

Conducting mid-career interviews can help to identify training needs and promote job mobility within a company. Increasing career flexibility thus includes changing tasks and functions, e.g. moving from a managerial post to an expert status, as is the case in some Swiss companies. In the United Kingdom, the use of mid-career plans around the age of 50 is promoted as part of a pilot project carried out from 2013-15 by the National Institute of Adult Continuing Education (NIACE). In an increasing number of countries, participation in training has become part of collective bargaining agreements. For example, in France, for the period 2009-12, 18 industry-wide agreements were signed that contain career and skills development arrangements. Firms with more than 300 employees were under a three-year obligation to negotiate on forward-looking management of employment and proficiencies (called *gestion prévisionnelle de l'emploi et des compétences* (GPEC). Some more recent agreements seem promising. They include intergenerational arrangements for taking on board new employees and for the professional development of older workers (such as the generation contract), as well as job mobility. In Finland, the framework agreement of 2011 concluded between the social partners includes the employees' right to participate in further training three working days annually

Source: (Höpflinger et al., 2006[10]; OECD, 2014[11]; OECD, 2014[12]; OECD, 2018[13]) www.niace.org.uk/current-work/mid-life-career-review.

Mid-career interviews and counselling exists also in some Japanese companies. The focus of these interviews is mainly oriented towards providing advice about future employment options and conditions after reaching a certain age. The Japan Organisation for employment of Elderly, Persons with Disabilities and Job Seekers (JEED)[4], provides companies, in particular SMEs, with this type of counselling. JEED should envisage to develop further its role in lifelong learning counselling combined with other age management tools in order to promote training activities for those aged 45 and above. More generally, a key challenge consists in strengthening skills needs identification and anticipation at all levels (company and local and national administrations). This would involve: skills needs assessments by individual companies; and carrying out skills assessment and anticipation exercises at the economy-wide, regional and industry levels.

Japan is promoting the establishment of career and lifelong learning counselling in companies. Practically, employers can introduce a mechanism "The Self-Career Doc system" that periodically provides employees with opportunities for various career workshops and career consultations, based on human resources development policies. In this way, employees can independently promote their own career development. In some OECD countries, training leave schemes exist, e.g. in Austria, where it has yielded positive results. (OECD, 2018[13])

In Japan, certified career consultant agencies have been established since 2001. They can be found operating in private employment service agencies, private companies and educational institutions. An online system to search for career consultants is available. From April 2016, several career service qualifications were subsumed into a single government certification of career consultants. This was done to ensure quality of the career services provided. Career consultants are obliged to be re-certified every five years. Up to the end of FY 2015, 53 000 persons had obtained career consulting certification.

Incentives for employers to invest in training

In some OECD countries, there are mechanisms in place to set incentives for individuals and employers to invest in training. These mechanisms can be established by governments or by companies, e.g. in a specific sector, and may involve different sources of financing from employers, individuals and governments (see Box 3.2).

Box 3.2. Establishing mechanisms to set incentives for individuals and employers to invest in lifelong learning

(i) Individual learning accounts (ILAs)

ILAs are used in several OECD countries. They encourage savings for training. In general, ILAs can be used to develop knowledge, skills and abilities. There are different types of accounts, including individual saving accounts, individual drawing rights (which may be considered as "virtual accounts"), and vouchers (customized or lump-sum). The schemes can be universal or targeted at specific groups. The schemes vary with regard to the financial participation structure of the state, the government and the workers and the type of accompanying services (information, counselling, guidance of the beneficiary; certification and evaluation of training providers). The advantage of ILAs is that they provide some time flexibility, time being one important barrier. The portability of learning accounts from one employer to the other as well as the modularisation of certified training is likely to increase their usefulness and effectiveness.

(OECD, 2017[14])points out that it is important to combine demand-led financing mechanisms with a system of quality assurance through which providers are certified. With regard to tackling unequal participation in training by workers with different skill levels, ILAs suffer from self-selectivity into training activities. They are more likely to be used by high- than low-skilled individuals. One reason of unequal take up in those OECD countries where they have been implemented is likely to be the lack of information as well as financial illiteracy. Therefore, countries have moved towards including the provision of information and guidance in ILA schemes in order to better cover different groups of workers as well as to steer the choice of training. In some cases, they have included more generous provisions for the low-skilled.

In the case of France, lifelong career guidance is a central element for implementing the new individual learning account scheme.In France a new individual learning account scheme (*compte personnel de formation*), was introduced with the national multi-sectoral agreement of 11 January 2013 and taken up by a new law in 2014 (OECD, 2018[15]). This law introduced individual training accounts, career advice (from 1 January 2015) and an assessment interview at least every two years. The law

sought to extend access to training to the loww-skilled and to employees of small businesses. A fund was set up to help finance individual training accounts for jobseekers and training plans for companies with fewer than ten employees. Each individual training account is credited with hours that employees may use throughout their working life for training leading to a qualification. Upon entering the labour market, every person will have a personal training account. This account is used by the person, whether employed or looking for work, to access training on an individual basis. Each member of the workforce has a "credit" of training hours that he (she) could use at every moment for vocational training leading to "a certification". This credit is portable from one company to another. The first results are positive, but are limited among the employed, as take up has been highest among jobseekers (Cnefop, 2016[16]).

(ii) Payroll levies

Payroll levies on employers are used in some countries as a way to pool resources from employers and earmark them for expenditure on vocational training. It is expected that they help avoid the "free-riding" of some companies, stemming from the fact that some employers invest considerably in their workforce (with expected benefits for the whole economy) and other do not but can "poach" trained workers from other companies. They can either be introduced by public policy or through collective bargaining (OECD, 2017[14])

Levies can be regarded as an obligation for employers to invest in further training. It may prevent some firms from disengaging in further training. However, given the different nature of economic activities, the need for the volume for training differs between the companies. Therefore, it makes sense to regard it as a basic financial contribution of employers to training. One problem that has been identified with this approach is that companies can use the funds for other activities and charge them to training. The net impact of these levies also remains unclear, as the policy may encourage employers to provide more internal training than they otherwise would have (Falch and Oosterbeek, 2011[17]). These schemes may also not be sufficiently targeted, e.g. to promote training for the more disadvantaged groups, namely those with a low skill level and those who have a poor previous participation in further training. There is no evaluation evidence on how effective these schemes are for incentivising training for older workers. Further, if not targeted at SMEs, they are likely to benefit more large companies as these have more capacities to identify training needs of their workers and organise training.

One way for achieving greater employer buy-in in the use of training-levy schemes is to involve them more closely in the governance of such schemes, including on decisions on training priorities and funding allocation (OECD, 2017[14]). This is likely to be better achieved if the levy schemes are organised at the sector level, at the potential cost that sector interests may outweigh the priorities of national skills strategies.

Since 2004, a number of Inter-Professional Funds for Continuing Training have been established in Italy, partly funded by payroll levies, which provide training programmes that benefits a large share of workers aged over 45.

Source: (Falch and Oosterbeek, 2011[17]; Gautié and Perez, 2012[18]; Ministero del Lavoro e delle Politiche Sociali, 2014[19]; OECD, 2017[14]).

Government support for training of employed mid-career and older workers is limited

The Japanese government has three types of schemes in place to support the training of the labour force: i) subsidies for employers to train their workers; ii) subsidies for individual training for "self-training" or "self-development"; and iii) subsidies for training of the unemployed (see the section below on employment services for the unemployed for further details).

The Career Development Promotion Subsidy provides subsidies to employers for part of training expenses and wages paid during the training period for implementing accredited vocational training. In April 2017, changes have been introduced to the programme, which is now named the "subsidy system to support human resource development". Employers who provide a highly effective training programme can receive a subsidy. Subsidised specialised training programmes are, for example, those that contribute to improve labour productivity, have both OJT and OFF-JT components, or are targeted at younger workers. The subsidy is basically provided on an hourly wage basis, and in some cases the cost of the training is subsidised. The amount varies depending on company size and type of training.[5] Industries, such as construction and IT industries, receive an increased subsidy (subsidiszed percentage for the cost of OFF-JT programs is increased by 15 percentage points). Subsidies for general training are lower. One of the measures that are subsidised concerns training for newly hired middle-age persons who had no regular employment over the past two years. Annex Table 3.A.1 gives an overview of existing subsidies in Japan to support employers to provide training to their workers.

The Japanese government has been actively promoting "self-development" of both, employed and unemployed, and, to this end, introduced the Education and Training Benefit (ETB)[6] in 1998 which covers part of the training fees paid by individuals. To be eligible, people need to have been contributing to the Employment Insurance (EI) for at least three years (or at least one year in the case of first-time participation in training). The subsidy is available from Hello Work (Public Employment Service). It is a lump-sum payment equal to 20% of the cost of attending and completing an education and training course designated by the Minister of Health, Labour and Welfare, up to a maximum of JPY 100 000. It is available for numerous courses ranging from those designed for computer-related qualifications and bookkeeping examinations. In 2014, an Education and Training Benefit for the courses entitled to "the benefit for professional practical education and training" was introduced for workers who contributed at least for three years to EI (or two years in case of a first training). In this case the benefit amounts up to 70% of the cost of course attendance, up to a maximum of JPY 560 000 per year.[7] The scheme is available for courses ranging from professional graduate school to specific occupations such as nurse, care worker or childminder. From 2016, courses to acquire mid or high level IT skills have also been made available.

In FY 2016, about JPY 4.2 billion was spent for general education and training courses and JPY 2 billion on professional practical education and traning courses. In total 111 800 people received the ETB for general courses. Only 9% of participants were aged 55 and above, while 23% of participants where aged 45-54. In the same year, 21 000 people received the ETB for professional courses. In the latter case the majority of beneficiaries are women, while this is not the case among those participating in the general courses. According to the 2016 administrative survey, 60% of beneficiaries were in employment (almost all as regular workers) and the remaining 40% were unemployed. The motivation for the employed to take up this benefit was to increase their skills and abilities in order to

get a better compensation/evaluation in their firms (only 12.6% answered that the reason why they use benefits is wishing to change jobs). The overall low take up of the benefit may be linked to long working hours.

JEED and the prefectures have been establishing and operating public facilities for vocational ability development in order to provide: i) long-term training for graduates of junior and senior high schools; ii) training for workers to provide them with high-level skills and knowledge required to cope with technological innovation and changing industrial structure; and iii) training for the unemployed. In FY 2015, 303 570 people participated in these Public Vocational Training Plans, of whom slightly more than half were unemployed and 38% were employed and 7% were graduates.

Other OECD countries have started to focus on promoting training of mid-career and older workers at all skills level. A number of countries have developed lifelong learning strategies and have reformed their institutions. Providing access to vocational education and training (VET) to all age groups is one key element for building up lifelong learning system. Countries that have opened their VET system to adults and have promoted adult apprenticeships include Australia, New Zealand and the United Kingdom. With the introduction of New Zealand Apprenticeships, all apprentices now receive the same level of government support regardless of age.[8] In Finland, a new adult VET programme was started in 2014 for low qualified adults aged 30-50. Within the system of Competence Based Qualifications, an extra possibility to study for a vocational qualification or part of it (a module) is offered to this target group (OECD, 2018[20]). In Denmark the adult training system contains many programmes. Although they are based on legislation, the social partners are heavily involved in implementation (OECD, 2018[21]). In Sweden, in 2009 the government initiated temporary measures for vocationally oriented upper secondary adult education (*yrkesvux*), including older workers. The main purpose was to counter the effects of the recession and labour shortages, and to reach individuals who lack upper secondary education or who need to supplement their upper secondary vocational education. Vocational training may be offered within the framework of municipal adult education, as well as education for intellectually challenged adults. All higher vocational education programmes are offered free of charge and entitle students to financial support, and any associated fees for course materials must be reasonably priced (OECD, 2015[22]).

Some lessons can be learned from the government-supported adult apprenticeship programme in the United Kingdom. In 2012/13, about 45% of people starting a government-supported apprenticeship (mainly at Level 2 and 3), lasting for at least 12 months, were aged 25 and above and a fifth was aged 40 and above (with 13% of all participants being aged 40-49). Older apprentices are more likely than their younger peers to start a Level 3 or above programme. The programme may be linked to the certification of prior learning. In an evaluation of the UK apprenticeship programme, adult apprentices were found to be quite heterogeneous regarding their previous work careers (Fuller et al., 2015[23]). Case studies point to a latent demand from adults for training and qualifications, including in English, maths and Information Communication Technology (ICT), with a view to career advancement.

Many OECD countries have also offer subsidised adult literacy and numeracy programmes (Windisch, 2015[24]). One example is the UK "Skills for Life" strategy, which was launched in 2001 to create a new infrastructure to support free adult basic skills learning opportunities over a seven-year period and improve the basic skills of adults. The programme was evaluated on the basis of a longitudinal approach (Meadows

and Metcalf, 2007[25]). It was found that college-based adult literacy and numeracy courses had a range of positive effects over a period of three years after terminating training, including increased learner self-esteem and improved commitment to education. In Ireland, the objectives of the Adult Literacy programme are to increase access to literacy, numeracy and language tuition for adults whose skills are inadequate for participation in modern society and the social and economic life of their communities. The aim is also to increase the quality and capacity of the adult literacy service. In 2010, approximately 21% of participants in the Adult Literacy programme and 18% of participants of the Back-to-Education Initiative (a part-time training scheme leading to a certification through the National Framework of Qualifications) were over 55 years of age (OECD, 2018[26]). Others (e.g. Germany) have introduced financial support to promote upskilling of older and low-skilled workers (OECD, 2018[27]).

Improving the system of recognition and validation of prior learning

In 1959, Japan introduced the National Skills Test, a skills assessment system to test and certify the skills that workers have acquired through formal (but not certified) or non-formal learning. It is regulated by the Human Resources Development Act. The MHLW specifies grades or skills levels for different job categories through an Ordinance. There are 126 job categories, as specified by a Cabinet Order (in 2017). Most job categories are classified in three grades. Each job category is reviewed on a yearly basis in order to adapt standards for the practical and theoretical examinations. The MHLW and the Japan Vocational Ability Development Association prepare the National Skills Test examinations, which are implemented at prefectural level. During FY 2016, there were 757 400 applicants, of whom 303 500 were successful (success rate of 40%). These have become "certified skilled professionals". The majority of applicants took the national skills test for the job category "financial planning".[9] Other main categories include manufacturing occupations. According to the experience of the public employment service, Hello Work, being a certified skilled professional is helpful for finding an adequate job. There is room for improvement and extension of the National Skills Test system, and the preparation for passing the test, as failure rates are high. The system as such is crucial as company-based training is still the dominant form of training for adults and standardisation of vocational training rather weak. Also, given the risk of demotion of older workers when they change jobs, the National Skills Test system could be an important instrument to keep skills use of older workers at the highest possible level.

In 2008, the Job Card system was introduced, initially for young people. It has later been extended to all age groups. The Job Card system can be used, with the support of career consultants and other personal support, as a tool for career planning throughout the life-course and as evidence of vocational ability in job-search activities and skills development. The system initially aimed to help young people with little experience to find a full-time position. The Job Card is used as the basis for: providing career counselling; providing vocational training combining practical workplace training and classroom lectures; and compiling after-training evaluation of vocational abilities and other information including the person's employment record. Usage and acceptance of the system by companies is low so far. Developing further the Job Card system in a manner that upskilling and recognition of non-formal learning is accepted and used by companies would help increase take up by mid-career and older workers.

In 2002, the MHLW introduced vocational ability evaluation standards. These were developed to systematically evaluate the knowledge, skills and ability to carry out the

tasks required for jobs in four skill levels, ranging from junior staff levels to the heads of organisations. Companies can use these standards as objective measures to evaluate vocational skills of their employees. The standards were developed in cooperation with industry associations. From August 2015, vocational ability evaluation standards had been set for 53 types of jobs including cross-industrial clerical work such as accounting and human resources, electrical manufacturing, and hotel services. The results are also utilised for a model evaluation sheet of the Job Card System. The companies can also customise the standards. Using the standards is voluntary. According to administrative surveys in FY 2016, 84% of companies using these standards say they helped improve the employment evaluation system and the human resource development system as well as recruitment activities.

Across OECD, some countries have introduced programmes that link upskilling of mid-career (and older) workers to recognition and validation of prior learning. One example is Finland, where a new adult VET programme was introduced in 2014 for low-skilled adults aged 30-50. It is embedded in the system of Competence Based Qualifications, which recognises competencies acquired in a variety of ways and which offers the possibility to complete a vocational upper secondary qualification, further vocational qualifications and specialist vocational qualifications as a competence-based qualification. With the new programme, an extra possibility to study for a vocational qualification or part of it (a module) is offered to this target group (OECD, 2018[20]). In Portugal, the former New Opportunities Initiative (INO) (2005-10), which extensively implemented adult training measures, provided low-qualified adults whether employed, unemployed or not in the labour force with a way of obtaining formal recognition of non-formal and informal learning and skills acquired through their working lives. This process was complemented by formal learning at the 4th, 9th or 12th grades of education and/or vocational certification. A system for recognition, validation and certification of qualifications (*Reconhecimento, Validação e Certificação de Competências*, RVCC) was set up.[10] Most of participants in the programme were employed workers (Duell and Thévenot, 2017[28]). Evaluations found that certification had a positive impact on income and employment but only when combined with training courses (Carneiro, 2011[29]).

Enhancing transparency of the VET and education system – lessons from Europe

In order to render the VET and education systems more transparent and comparable across Europe, the European Commission has set up a European Qualification Framework (EQF), which entered into force in 2008. The implementation of the EQF was based on the Recommendation on the European Qualifications Framework for lifelong learning adopted by the European Parliament and the Council on 23 April 2008. It has since then been transposed by Member States into National Qualification Frameworks (NQFs). In 2017, a new set of Recommendations to implement the EQF have been adopted. Before 2005, NQFs have been set up in three European countries (France, Ireland and the United Kingdom). By 2017, NQFs have been introduced in all 39 EQF participating countries.

The EQF distinguishes between eight qualification levels. Most importantly, it has promoted two principles supporting the modernisation of qualifications systems and directly contributing to NQF developments. First, the learning outcomes perspective focuses on what a holder of a qualification is expected to know, be able to do and understand. Second, it is based on a comprehensive approach covering all levels and

types of qualifications: formal education and training (VET, general education, higher education) as well as qualifications awarded in non-formal contexts.

The importance of the transparency of the VET system, which makes qualification easily tradable, has been widely acknowledged in the case of the initial vocational training system in Germany. With the development of the *Deutscher Qualificationsrahmen* (DQR), which transposes the EQF in Germany, this has been extended to further (vocational) training. Thus Germany, as well as some other European countries such as Austria, Poland, Slovenia and Sweden, have started working on procedures for including non-formal and private sector qualifications and certificates (Cedefop, 2018[30]). A recent study carried out in Germany on the potential use of the German qualifications framework (BMBF et al., 2017[31]) identifies several areas where the DQR can add value. It can be used to support human resource development (recruitment and development of employees) in particular in SMEs. However, this will require raising employer awareness of the DQR. A survey conducted by this study among training and education institutions, business associations and employers showed that its usefulness is mainly valued by private further training institutions, but less by companies. According to (Cedefop, 2010[4]), the most successful example of good framework visibility in the labour market is the French NQF (*Répertoire national des certifications professionnelles, i.e.* national register of vocational qualifications), where qualifications levels are linked to levels of occupation, work and pay (Allais, 2017[32]).

Improving digital and entrepreneurial skills at all ages and preparing workers for new forms of work

Some countries have started to promote the development of the ICT skills of older workers. Fore example,in Greece, since 2012, 50plus Hellas (www.50plus.gr) has been providing free ICT training to older people with the support of a national telecommunications company and local authorities. Other countries are promoting a broader approach to adapting the skills of older workers to changing skill needs. In Germany, the programme "Corporate Values People Matter" (*UnternehmensWert Mensch*) was initiated in 2014, funded by the European Social Fund and the Federal Ministry for Labour and Social Affairs. The programme's objective is to help SMEs develop future-oriented, employee-centred human resource management strategies with a holistic approach, including diversity management, work organisation, training and health measures. In particular, one objective of the training measures is to help prepare and adapt to the digital economy. The programme subsidises consultancy services for SMEs for up to 50% or 80% of these costs. On-site consultancies in a company may last about ten days. During the first two years, about 3 000 companies benefited from the programme, Which included entrepreneurship education at schools, technical colleges and universities.[11]

Preparing future generations for a changing world of work in which self-employment may become more important should include developing and fostering their entrepreneurial skills. The OECD has recommended to develop entrepreneurial education at school in Japan (OECD, 2015[33]).

Since the 1990s, entrepreneurship education has grown substantially, in particular in countries already known as entrepreneurial such as the United States, Canada and Australia as well as in Nordic European countries (Schoof, 2006[34]). It takes place at different levels of the educational systems, mainly at the secondary educational level and universities, but also outside the formal education system. While entrepreneurship

training at secondary schools aims primarily at developing an entrepreneurial mind-set. Programmes that seek to promote immediate enterprise creation for young people can be run at vocational schools or universities (Hofer and Potter, 2010[35]; European Commission, 2008[36]). These programmes are often delivered within a partnership framework. Training centres, universities, development banks, non-governmental organisations (NGOs) as well as business persons, have been involved in establishing curricula, providing the training or developing training material. Entrepreneurship skills can also be built up at a later stage. For people from disadvantaged groups entrepreneurial skills can be built up through a combination of general entrepreneurship training for all and more targeted start-up training, or with other measures to support start-ups (OECD/EU, 2015[37]).

Rendering employment services more efficient

There is a need to help older jobseekers back into quality jobs

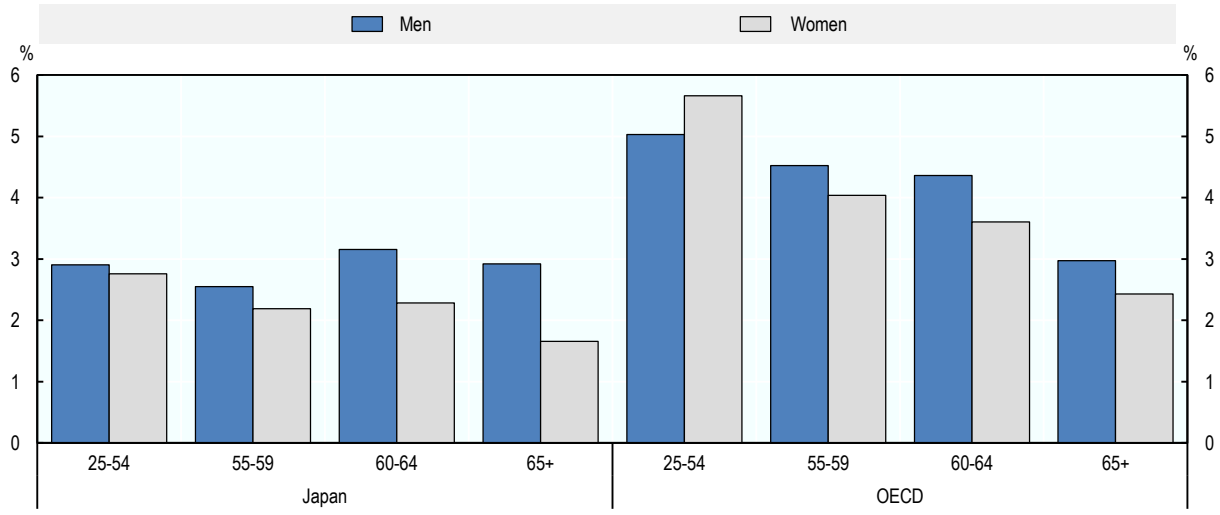
Improvements in vocational education and training are critical for Japan to keep older workers employable and make it possible for them to stay in their jobs longer. Even then, some older workers will face job loss as a result of current retirement rules and human resource strategies of companies. Providing older jobseekers with effective support to move back into rewarding and productive jobs, is therefore essential to foster a more inclusive labour market. In the context of Japan's rapidly ageing population, combined with a high degree of labour mobility of older workers, it is important that middle-aged and older jobseekers have access to good employment services and effective active labour market programmes (ALMPs) to help them make successful job transitions and to minimise the costs of those transitions. This is also important in a view of overcoming labour shortages in Japan.

In contrast to OECD average, the unemployment rate in Japan is low, as shown in Figure 3.8. However, the unemployment rate increases for the age group 60-64 refelcting rules around mandatory retirement age as well as the difficulties older workers face in finding new employment compared to prime age workers. The unemployment rates are higher for older men aged 55 and above compared to older women . This is partly explained by the higher incidence of women in part-time and non-regular work as well as their higher likelihood of leaving the labor market when they cannot easily find a job.

Once unemployed, older workers aged 55-64 on average, are likely to stay out of work for shorter periods than their counterparts in other OECD countries and younger workers in Japan. This could be attributed to additional government policies namely the Act on Stabilisation of Employment of Older Persons that mandates employers to either retain or re-hire older workers when they reach mandatory retirement age. However employment prospects are still much harder for those aged 65 and above as they make up 40% of the long-term unemployed in Japan - nearly double the OECD average (Figure 3.9).

Figure 3.8. Unemployment rate by broad age group and gender, Japan and the OECD

As a percentage of the total labour force in each age group, 2017

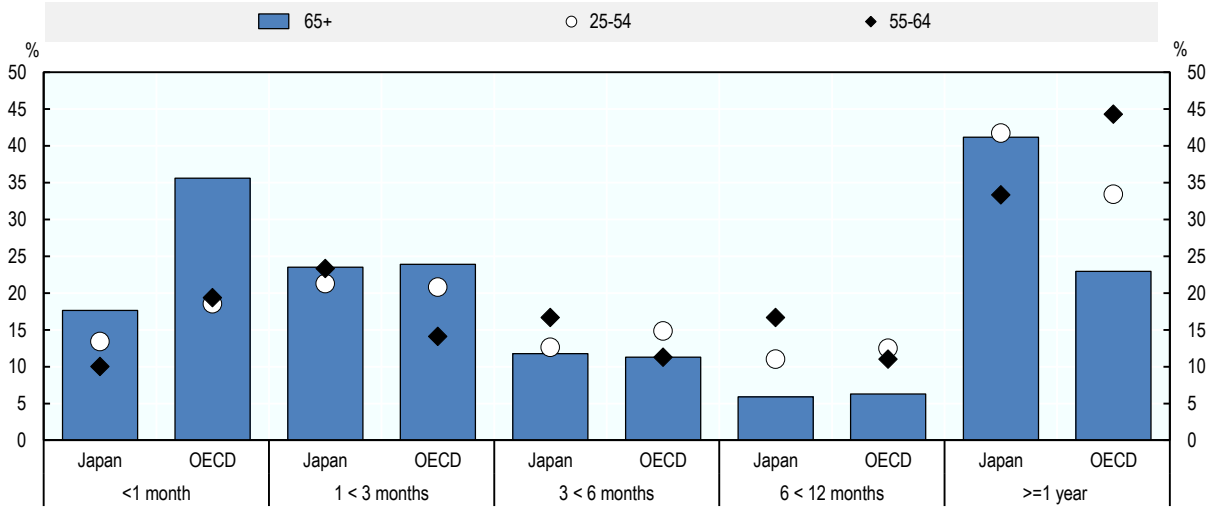


Note: The OECD is a weighted average.
Source: *OECD Dataset LFS by sex and age - indicators*, http://stats.oecd.org//Index.aspx?QueryId=54218.

StatLink http://dx.doi.org/10.1787/888933890768

Figure 3.9. Unemployment by age and duration, Japan and the OECD

As a percentage of total unemployment in the specific age group, 2016



Note: The OECD is a weighted average.
Source: *OECD Dataset on Incidence of Unemployment by Duration*, http://stats.oecd.org//Index.aspx?QueryId=9593.

StatLink http://dx.doi.org/10.1787/888933890787

Supporting older workers in job-search activity and placement through Hello Work

Hello Work, the Japanese Public Employment Service (PES), consists of 544 locations nationwide. Hello Work provides vocational counselling, job search guidance, referrals to active labour market programmes, including participation in vocational guidance, and placement services.

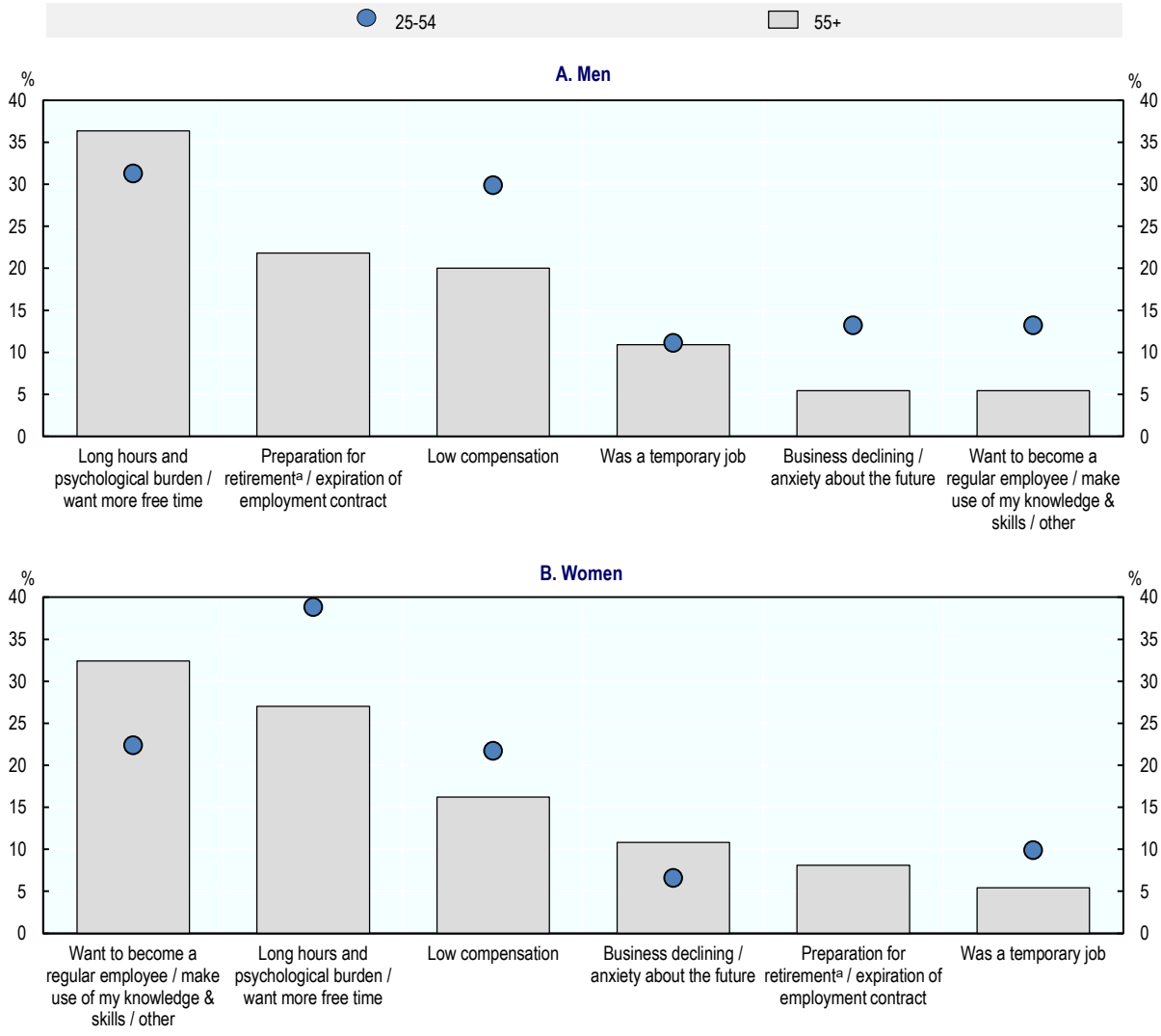
Main Hello Work offices in prefectures have a special corner for older jobseekers aged 55 and above and special corners for those aged 65 and above. At these corners older jobseekers can make appointments with the advantage that they avoid waiting; are followed-up by a caseworker and the caseworker can prepare counselling in advance. Also at these corners, age-adapted computer screens are available for job-search though not all older jobseeker are using the special desk. Overall, older jobseekers are more likely to come to the Hello Work offices than younger jobseekers, as they more often lack digital skills to search for jobs online. If they claim unemployment benefits they have to show up every four weeks.

There is no evidence on the effectiveness of counselling and guidance services provided to older workers in Japan. However, they have shown to be effective, according to the scarce evaluations that exist across OECD countries. In Switzerland an evaluation of intensive counselling provided to older jobseekers has proved to yield positive results (Arni, 2012[38]). In Australia, the Experience+ Career Advice Service, implemented in 2010, enabled Australians over the age of 45 to receive additional career counselling and résumé services. The effectiveness of measures may be further increased if different measures and tools are combined (e.g. combining subsidies, training elements and counselling). In Austria, the PES also provides a counselling programme to employers with special emphasis on the development of life-cycle oriented educational programmes and the dissemination of the concepts of “diversity management” and “productive ageing” (OECD, 2018[13]). In Germany, the Programme “Perspektive 50+”, running from 2005 to 2015, was implemented by the PES for unemployed means-tested minimum income recipients aged 50 and above focused on providing counselling. The programme worked also to change the attitudes of employers. Regional employment pacts were set up, in partnership with nearly all jobcentres as well as with a wide range of local stakeholders such as companies, chambers and various associations, trade unions, municipalities, training institutions, churches and social service providers. Evaluations of this programme showed positive results (OECD, 2018[27]).

Major challenge facing Hello Work are to match older unemployed workers to jobs that fully utilises their experience and skills as well as meeting their job preferences. For instance, the main reason for job changes for older men as well as younger and prime age men are long working hours and psychological burden (Figure 3.10, Panel A). A low compensation was less often a driving force for changing jobs for older as compared to younger men. (Figure 3.10, Panel B). This indicates that Hello Work would need to make greater efforts in matching older workers with job opportunities with shorter working hours and low job strain.

Figure 3.10. Reasons for wanting to change job, by broad age groups and gender

As a percentage of all persons wanting to change jobs, 2016



a) For ages 25-54, the cell size was too small for this category.
Source: Japan Household Panel Survey (JHPS/KHPS) provided by the Keio University Panel Data Research Center.

StatLink http://dx.doi.org/10.1787/888933890806

Upon registration at Hello Work, jobseekers are asked about their job preferences. However, in many cases their wishes are not fulfilled, and older jobseekers often have to take up jobs that do not correspond to their qualification and experience gained over the working life. Older jobseekers are steered towards occupations for which there are shortages and which younger workers would not be interested (Annex Figure 3.A.1 and Annex Figure 3.A.2 in the Annex). According to administrative data of Hello Work, in FY 2016, among those searching for work using Hello Work services, men typically found an employment as drivers, cleaning, packaging, conveyance and related workers.

Women at this age eventually found most often a job as cleaning worker (16.6%), as long-term care service workers (13.2%) and as a cook (13.5%), while for roughly half them these were the occupations they wished to perform. At the same time, Hello Work counsellor find it difficult to change mindset of jobseekers, so that they accept this kind of job jobseeker use to come often to the Hello Work office. Hello Work offices may have a special desk for job offers in shortage occupations such as in the area of childcare and nursing (information provided to the Secretariat during the mission to Japan).

Among other factors, stigma and stereotypes as well as lack of concise information on employment barriers can undermine efforts to good quality job referals and job placement. While the specialised counselling desks for older workers have their advantages, they also run the risk of reinforcing age stereotypes. To complement knowledge and experience of caseworkers, Hello Work can develop statistical profiling tools as used in many other OECD countries to help PES workers 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.

Moreover, older workers are often confronted with complex and inter-related employment barriers, such as skills deficiencies, health problems, or care responsibilities. Collecting systematic and good-quality information on the nature and extent of these obstacles which is currently missing can also provide a better match between individual needs and available support, and make associated policy interventions more effective and less costly. It can also enhance efforts to integrate support across different services of Hello Work and across institutions. Hello Work can use individual and family-level data to provide concise statistical portraits of the circumstances of individuals with labour-market difficulties by using the OECD methodology developed under Faces of Joblessness.

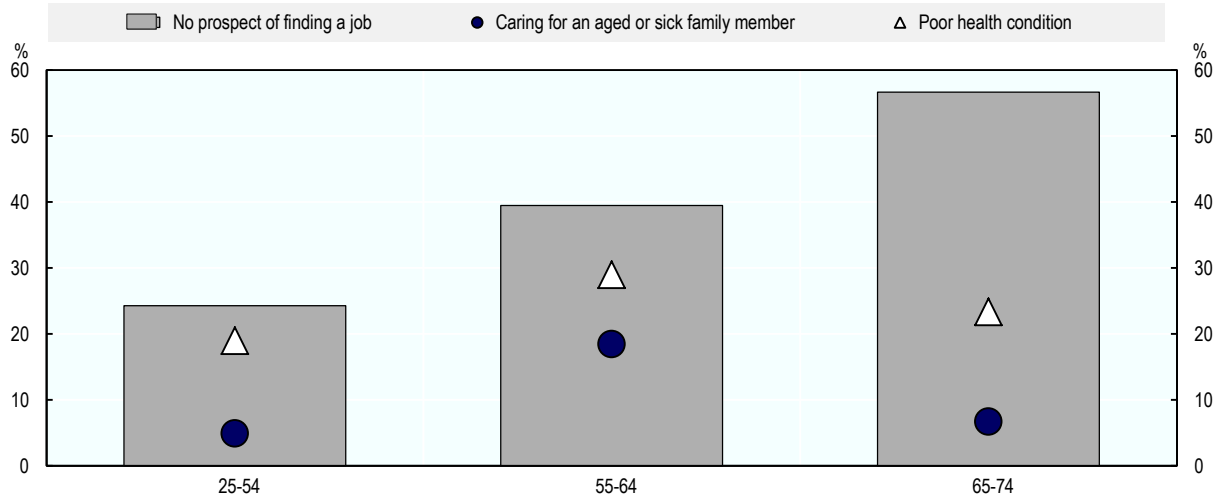
Preventing older workers from becoming inactive

In view of the daunting challenge of population ageing, it is also important to mobilise those who are not searching work but who would wish to work. This group accounts for10% of inactives aged 55-64 and 3% of inactives aged 65-74. However, according to the Japanese Labour Force Survey more than half of inactives wishing to work aged 65 and 40% of those aged 55-64 percieve there is no prospect of finding a job.

Caring for an aged or sick family member and poor health conditions both are other major factors for not searching for jobs among older workers. However, care responsibilities are bigger employment obstacles for 55-54 years olds than for those aged 65 and above given that caring for older parents is more likely to occur before reaching the age 65. Age differences are less marked for those wishing to work but not searching because of poor health conditions. Still almost a quarter of those aged 65 and above and 29% of those aged 55-64 indicate that poor health refrain them from searching for work (Figure 3.11).

Figure 3.11. Reasons for inactives wishing to work but not searching employment

Percent within each age group of inactives wishing to work, 2016



Source: Annual report of the Japanese Labour Force Survey.

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In order raise employment rates of older workers and to avoid that older workers transit from employment to inactivity when reaching (mandatory) retirement age, there are various measures in place to motivate them while they are still at work. These activities tackle one of the main the employment barrier that is the prospects for not finding a job. These activities also have the objective to increase the motivation, and thus the willingness to stay in the labour market (see e.g. (JEED, 2018[39]), see section 3.1).

The Industrial Employment Stabilisation Centres (IESC), which were set up in the past in the context of industrial restructuring (decline of steel and shipbuilding industry), have been assigned new tasks in order to promote job mobility between companies. IESC operate throughout the country and provide services for employers and employees by proactively contacting and visiting companies. Notably, IECS has established a database with people close to retirement age. They are contacted and encouraged to continue to work. IESC includes in its data base companies that are willing to hire workers aged 65 (information provided to the Secretariat during the mission to Japan). Activities of these centres are financed through the government, membership fees of companies and fees for seminars. MHLW is assessing their achievements on the basis of the number of people being transferred. In recent years, the number of open positions increased, and the number of available workers interested to be transferred decreased. In FY 2016, the ratio of opening positions to the number of workers available for being transferred was 5.7.

IESC has also run a work trial programme for mid-aged workers aged 40-50, where workers are placed on a trial bases for one year in another company. After the trial, workers either re-integrate into their old company or quit job and stay with the new company. Subsidies for this programme are available. IESC has set-up a labour intermediation data bank for this purpose. However take-up has been low as companies perceive a risk of losing talents. If workers come back after the trial, it might be difficult to find an adequate job within the company. Further, companies have concerns about confidentiality. Sometimes, it is in the interest of companies to displace workers. From

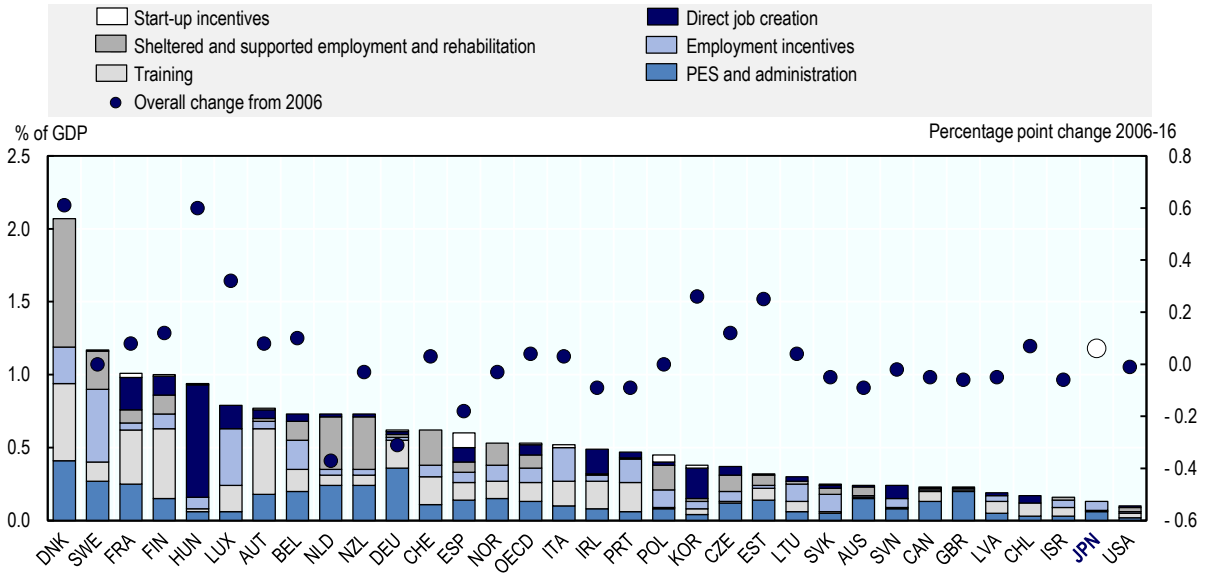
the point of view of the receiving company one year is not enough to make the trial worker productive and uncertainty on whether the worker will stay will refrain the companies to invest much in the training of the trial worker (information provided to the Secretariat during the mission to Japan). Instead of having different agencies in charge of the labour mediation for employed and unemployed it could be considered to concentrate these efforts at the PES and develop there capacities to ease job-search of the employed.

Japan is spending little on active labour market programmes

Spending on active labour market programmes is low as compared to other countries albeit they have increased markedly in recent years from a low base (Figure 3.12), In 2016, Japan spent 0.14% of its GDP on active labour market programmes (ALMP), considerably below the OECD average (0.54%). Half of Japan's ALMP spending is on PES and administration activities i.e. administration of benefits and job-search support. This suggests there is a strong emphasis on information and counselling as primary tool to help unemployed older workers and other jobseekers alike.

Figure 3.12. Despite more than doubling public spending on active labour market programmes over the past decade, Japan has one of the lowest expenditures among OECD countries in 2016

As a percent of GDP in 2016 and overall change since 2006



Note: Data refer to 2011 for the United Kingdom (change 2006-11), to 2015 for France, Italy and Spain (change 2006-15) and the change from 2008-16 for Chile.
Source: *OECD Ddatatset on Public expenditure and participant stocks on LMP,* (http://stats.oecd.org//Index.aspx?QueryId=8540).

StatLink http://dx.doi.org/10.1787/888933890844

Almost another half is spent on employment incentives although expenditure in this area is still much below the OECD average. The measure includes a range of subsidies targetted at improving employment of jobskeers aged 65 and above and to meet the cost

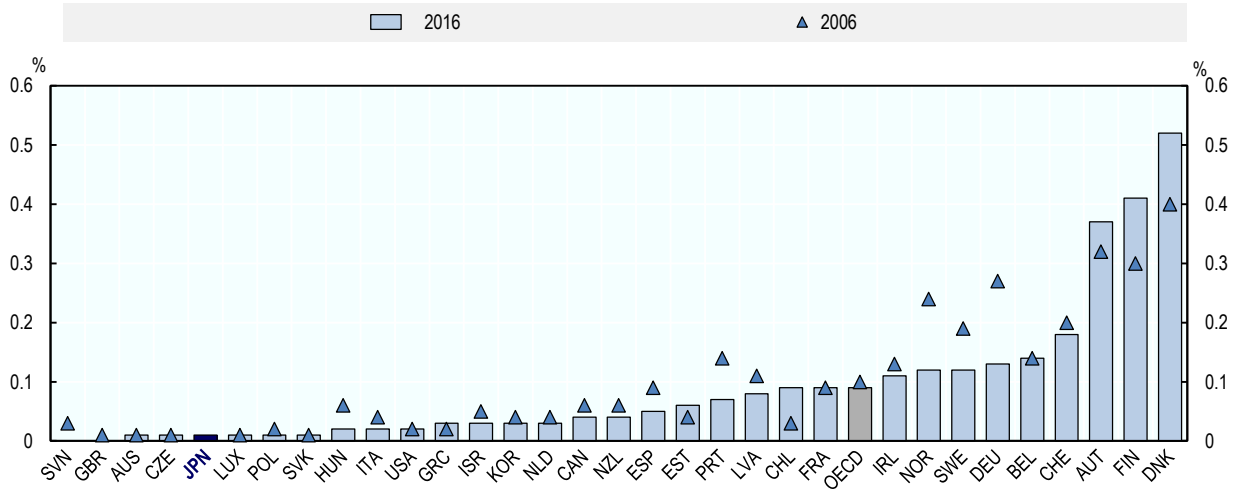
towards improving environment for hiring older workers e.g. employers who convert older temporary workers status to permanent status.

Public works have continued to play an important role in Japanese employment policies, but as a demand-side measure and a regional development policy, rather than a labour market programme where jobs are reserved for the unemployed. Only 0.01% of the ALMP spending was reported in 2016.

Finally, as compared to other OECD countries, Japan spends very little on institutional training as compared to most OECD countries (Figure 3.13). One major factor for this is that on the job training in Japan is traditionally more dominant than public led training.

Figure 3.13. Public expenditure over the past decade on institutional training across OECD countries

As a percentage of GDP, 2006 and 2016



Note: Data for 2006 refer to 2008 for Chile; data for 2016 refer to 2011 for the United Kingdom and to 2015 for France, Greece, Italy and Spain.
Source: *OECD Dataset on Public expenditure and participant stocks on LMP*, https://stats.oecd.org/Index.aspx?DataSetCode=LMPEXP.

StatLink http://dx.doi.org/10.1787/888933890863

About 40% of participants in public vocational training are unemployed. In FY 2017, the earmarked budget is JPY 96 billion. The national council on training annually decides the volume of public vocational training based on national budget, taking human resource needs of growth industry and regions into account. Efforts have been made to anticipate the skills needs of regional industries and companies. Councils are established in each prefecture, comprising local labour-management organisations, the prefectural government, Hello Work and private educational/training institutions, cooperation and coordination are promoted so that the state, prefecture and private institutions can offer training programs leveraging their own features and eliminate overlap with the programs provided by other organisations. Skills anticipation of local and regional labour markets are essential for providing meaningful training for the unemployed. Training of mid-aged and older workers should, however, also capitalise on prior learning and competencies of the worker in order to avoid demotion and increase productivity.

Public vocational training is organised by the national and prefectural agencies. One example of a public facility that provides training to older jobseekers is the Tokyo Vocational Skills Development Center (Box 3.3).

Box 3.3. Tokyo Vocational Skills Development Center providing short-term training courses for older jobseeker

Tokyo Metropolitan Vocational Skills Development Center, provides as a public entity public vocational training for jobseekers and employees, with a specific focus on those who work in SMEs. There are currently four Vocational Skills Development Centers in Tokyo, eight schools, and one Vocational Skills Development School for persons with disabilities in Tokyo. In 2017, in Tokyo about 15 800 training places were available for "ability development training", of which 20% were provided in-house and 80% were commissioned. In FY 2017, 5.6% of training places in these courses got specific courses were earmarked for older jobseekers aged 50 and above. These can be trained for three to six months in 13 areas, such as building management, livelihood support services, cleaning staff training, garden construction management, equipment maintenance, electrical facility maintenance, hotel and restaurant service (5.6% of all participants in "ability development training" for jobseekers). Older jobseekers can also participate in the general courses, which includes basic computer courses (among the "ability improvement training" measures) 4.1% of participants were older jobseekers). One of the four Vocational Skills Development Centers, the Chuo-johoku Vocational Skills Development Center, offering training to seniors since the 1990s (at that named Tokyo Metropolitan Senior Otsuka Occupational and Technical School for elderly), has specialised in providing training older jobseekers in their interior finishing department, building management department and hotel and restaurant service department (all six months courses). The school provides placement services in cooperation with Hello Work. Placement rates are high, as the training offers have been developed based on close contacts with and skills need information provided by local industry associations.

Source: Information provided to the Secretariat during mission to Japan

There is limited number of studies to analyse the effect of public vocational training based on the quantitative model. (Kurosawa, 2001[40]) estimated wage changes of trainees before and after taking public vocational training. Taking into account sample selection bias, she revealed that training has positive impact on getting a new job, but wage of male over aged 45 was changed to negative direction after training. (Kurosawa and Hotokeishi, 2012[41]) compared effects of national and prefectural institutional training and entrusted training on placement rate after training. They showed that public institutional training resulted in higher placement rate than entrusted training, and national vocational training showed better performance than prefectural training. They recommended closer communication and cooperation between national, prefectural and private training institution to share best practices on ways of organising training curricula, training methods and placement assistance[12]. Assessing the outcome of the Support System for Jobseekers (for all age groups), (Fujimoto, 2016[42]) finds that employment were relatively high in the fields of long-term care, medical administration, construction, hairdressing and beauty. When controlling for the course's field, the author finds that counselling, guidance, support in job-search, finding job offers and leading participants in

joint briefing sessions held outside the training institution helps improving the labour market outcome. Effectiveness is increased when the training agencies actively engage in information exchange and partnerships with industry associations.

Closer cooperation of various actors providing placement services for older workers needed

Some municipalities provide job creation programmes, guidance, or training programmes for older worker and may run their own employment programmes. They can apply for a three year grant in order to tackle local labour market problems, such as labour shortages and promotion of employment of older worker. One example is the Kashiwa Liaison to promote the "ageless society" set up in the city of Kashiwa (Chiba Prefecture), which has the objective to improve access to employment, create better working environment for older people, and tackle the negative attitude of employers towards older workers. The first two projects were run from FY 2009-13 and from 2014-15. The current "Kashiwa" project is running from 2017-20 with the aim to to place older unemployed into work and provide training if necessary. Main partners are Kashiwa's city Silver Human Resources Center (see below), the chamber of commerce, companies, Institute of Gerontology of Tokyo University, Second Life Factory (see below), Japan Finance Corporation, Kashiwa's city government and the city's council for social welfare. Companies and workplaces are visited before making job referrals to check the work environment, working conditions and job duties. One advantage of the jobs offered to older workers through this project is that they are part-time jobs (based on a work contract). Priority areas for placement have been identified in the area of child and old-age care, livelihood support, retailing and services and manufacturing. In addition to job creation and placement activities, the project provides training opportunities in the second life factory (e.g. trainings for cutting trees). The project is subsidized with a maximum budget per year of JPY 20 million; nearly three quarter of this budget is provided by MHLW

While the tasks of Hello Work should not be duplicated by municipal employment programmes, it is useful if municipalities develop integrated approaches to tackle ageing (including providing elderly care, social integration programmes, etc). To improve the efficiencies of such programmes, municipalities could outsource the delivery of social integration through a tendering process. Nevertheless, in such an integrated approach, Hello Work should be a strategic partner.

Silver Human Resource Centers (SHRC) started to operate on an experimental basis in 1974. The 1971 Act entrusts Silver Human Resources Centres with providing "easy task for older retirees". The programme was formally established in 1989 and expanded rapidly. The SHRC programme is being promoted to provide convenient community based temporary and short-term job opportunities for their members (Duell et al., 2010[43]). Workers who accept jobs through SHRC are not always protected by labor laws as they are classifies as contract workers. This means that sometimes they can be paid below the minimum wage despite guidelines not to do so. In, 2015, there were 1 272 centers with approximately 720 000 members, who are in general retired. Most of the work that they undertake consists of indoor and outdoor general work (e.g. park clean-up, cleaning in household, administrative work such as administration of car-parking lots). SHRCs work closely with local stakeholders, such as the municipalities. From FY 2016, a new project for creating employment opportunity has been started with cooperation among local public agencies and economic associations. Furthermore, while persons finding jobs through SHRCs enabled to work for less than 20 hours per a week, the revised act 2015 allow them to work until 40 hours.

The role of SHRCs is highly valuable for the social integration of retirees. However, the work provided through the SHRC should not be in competition with services provided at the market, it should not lead to unfair competition, e.g. in the area of gardening, housekeeping, etc). Setting-up local competition councils with representatives of the local economy and social partners would be an option to avoid unfair competition. A close cooperation with Hello Work would be advisable in order to provide jointly labour market and social integration services.

Summary and recommendations

A mixed picture emerges of the skills of older people in Japan. In comparisons with other OECD countries, they 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. Japan faces a number of challenges. First, Japanese adults skills are underutilised at work representing a loss of learning opportunities as well as a loss of potential productivity gains. Second, Japan's system of lifelong learning is less well developed than in many other OECD countries, hindering job prospects of older workers. Finally, older low-skilled Japanese workers are at a particular disadvantage with respect to training and there are strong inequalities in access to training between regular and non-regular workers.

At the same time, there is a pressing need to improve the *quality* of job matches for older jobseekers, who often move into low skilled, low-paid and insecure jobs after retiring from their main job. In particular more can be done to provide tailored and well-coordinated employment services.

Box 3.4. Key Recommendations

- *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 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 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 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 Centers 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 Centers should focus on the social integration of older workers but it must offer jobs with guaranteed minimum pay and working conditions.

Notes

[1] Suga (2010[44]) pointed out that firm expenditure on employee training has decreased as a result of the rise in non-regular work and the lower average amount invested in non-regular workers relative to regular workers.

[2] The survey result for non-regular workers shows similar results.

[3] Work-related training includes formal and non-formal training. Work-related training is usually expected to have some effect on performance, which is presumably expected to be based on increased skill levels, and result in productivity and possibly wage gains. Training that has been undertaken for other reasons may also increase certain skills but would not necessarily lead to productivity increases at work.

[4] The national government provides training via an independent administrative agency, JEED.

[5] For example, for SMEs, the hourly wage subsidy vary between JPY 665 and 760 with 45% of the training cost subsidized. When the training program fulfils labour productivity requirements, the subsidy is increased (OFF-JT 60% of the cost and 960 yen per person per hour).

[6] Currently the Education and Training Benefit contains the courses entitled "the benefit for general education and training" and the courses entitled "the benefit for professional practical education and training". In the courses entitled to "the benefit for general education and training"

[7] With an additional amount equivalent to 20% for those who have obtained qualifications, up to a maximum of JPY 160 000.

[8] http://www.careers.govt.nz/education-and-training/workplace-training-and-apprenticeships/new-zealand-apprenticeships/.

[9] MHLW, Press Release, 7 July 2017.

[10] By 2010, nearly half a million adults, representing a sixth of the Portuguese adult population, had obtained a certification.

[11] www.unternehmens-wert-mensch.de/startseite/ (accessed 12 February 2018).

[12] They also pointed out that national public institutions can evolve and share "know-how" voluntarily because the polytechnic university plays a key role in doing so, but other institutions do not have such an institution.

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Annex 3.A.

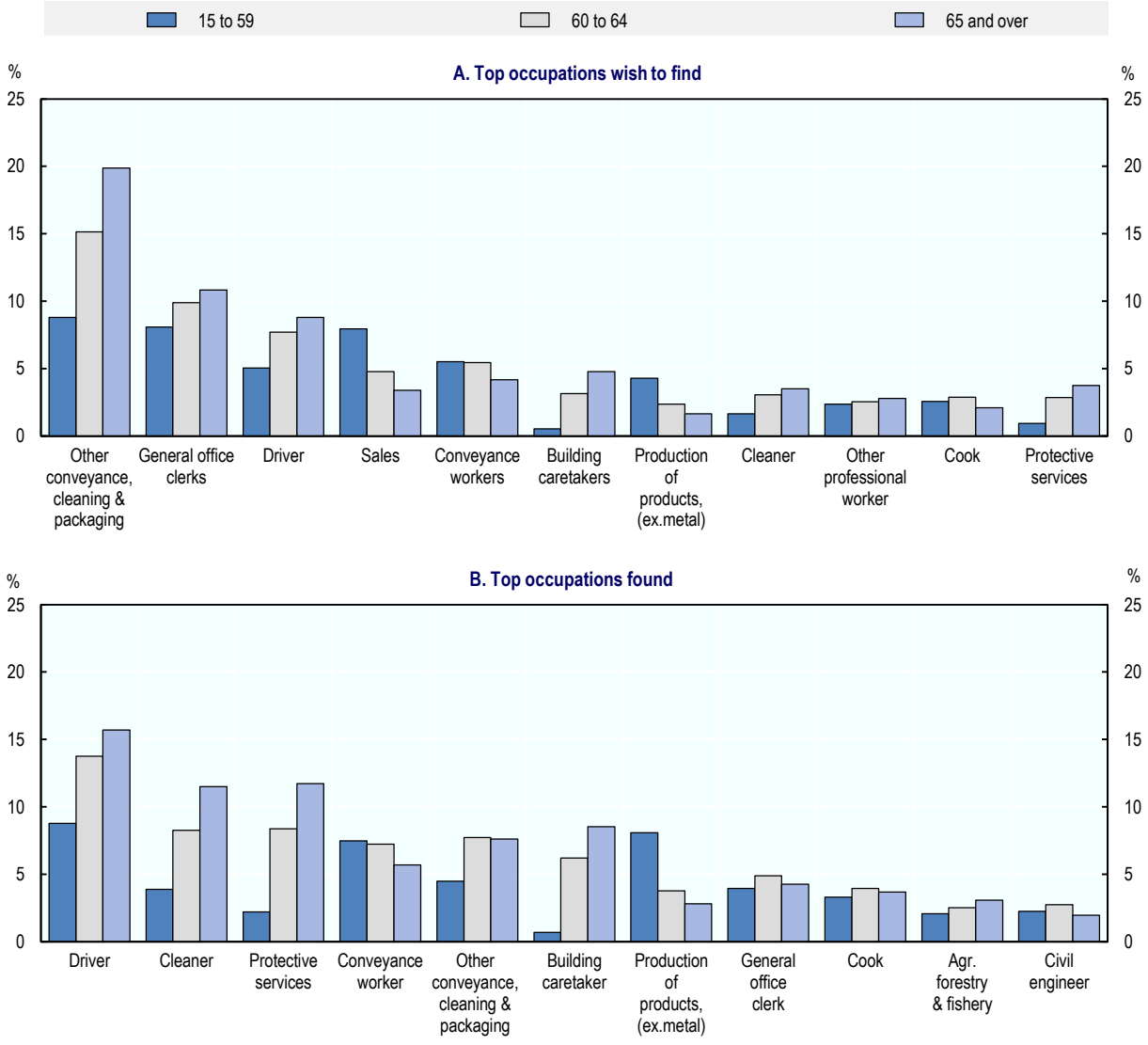
Annex Table 3.A.1. Training subsidies available for companies in Japan

Name of Training Course	Eligible Entity	Brief description of the course
1. Employment-type Course (applied by OJT/OFF-JT wage subsidy and OFF-JT cost subsidy)		
Accredited training with practical work experience for Specific Fields	Firms, Associations	Accredited training with practical work experience in construction, manufacturing, IT industries by the MHLW
Accredited training with practical work experience	Firms	Accredited training with practical work experience by the minister of MHLW
Employment-type course for middle-elderly		Training for newly hiring middle-elderly persons who has no regular employment in past two years
2. Priority Training Course (applied by OFF-JT wage subsidy and OFF-JT cost subsidy)		
Youth Training	Firms	Training for youth under aged 35
Skilled Labour Cultivation and Skill Transfer		Training for improving leadership of skilled labour and skill transfer
Training for Growth Areas and Globalisation		Training for persons working in growth areas and being engaged in global activities
Training for Long Term Career Formulation		Training using designated classes in the education and training benefits scheme for specialist practical education and training by the MHLW
Training for People during and after Child Care		Training for skill development for people who are during and reworking/ rehiring after child care
3. Ordinal Training Course (applied by OFF-JT wage subsidy and OFF-JT cost subsidy)		
Ordinal Firm Training	Firms	Training except for 1. and 2.
Ordinal Association Training	Associations	Training provided by firm associations
4. Introduction of New System (applied by lump-sum subsidy or cost subsidy)		
Planned Training / Vocational Ability Evaluation	Firms	Introduction of planned vocational training or ability evaluation scheme
Self-Career Doc		Introduction of the Self-Career Doc
Grant for persons passing Vocational Test		Introduction of firm original granting system for persons passing test
Vocational Training Leaves		Introduction of training leaves or short working hours for training
Firm-based Vocational Test		Introduction of firm based vocational test
Grant for Association	Associations	Development of sector based test/vocational training program

Source: Japanese Ministry of Health, Labour and Welfare.

Annex Figure 3.A.1. Top occupations male workers wish to find and those found by age

As a percentage of registered jobseekers, 2016



Source: Hello Work administrative data.

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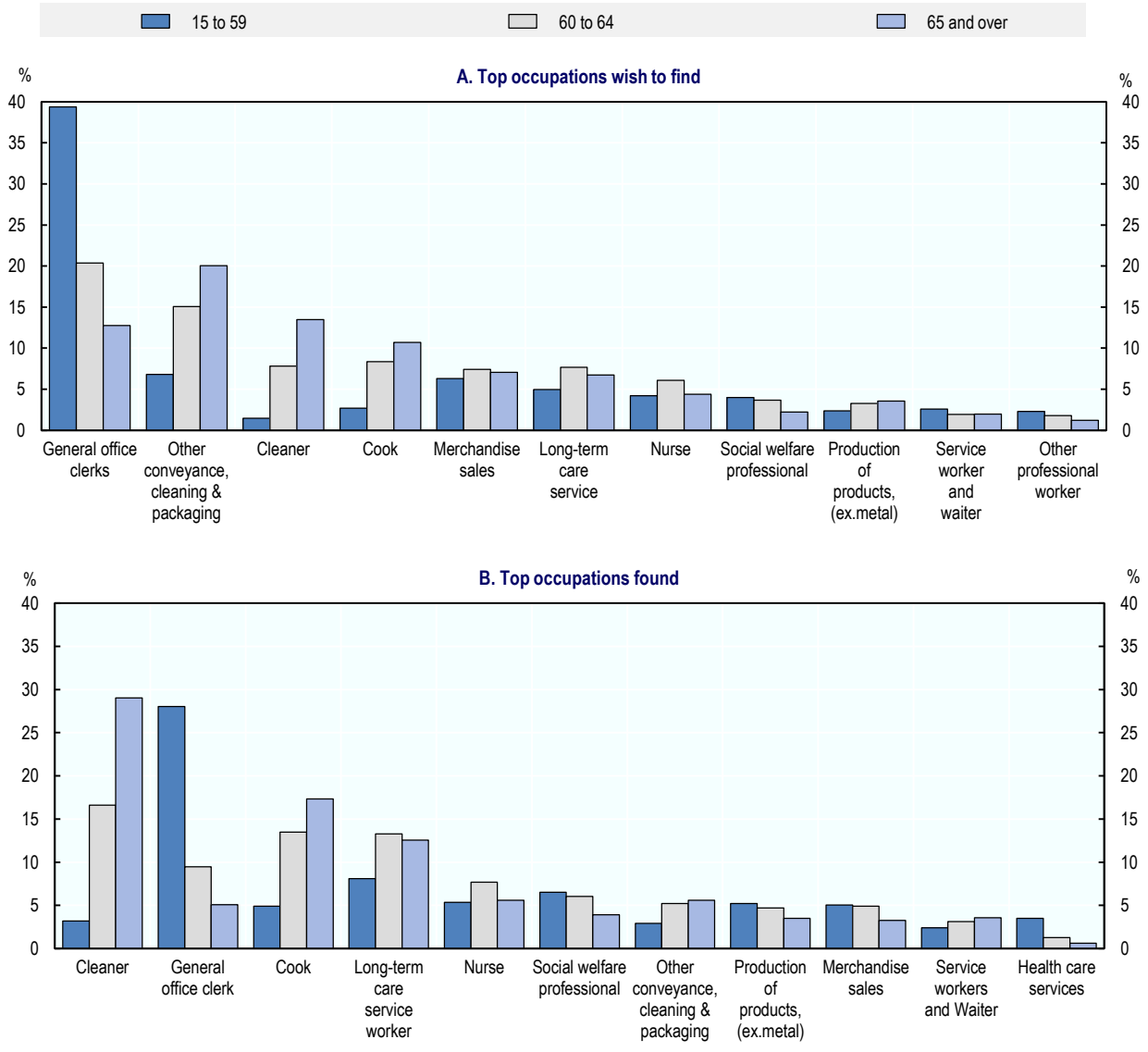
Annex Figure 3.A.2. Top occupations female workers wish to find and those found by age

As a percentage of registered jobseekers, 2016



Source: Hello Work administrative data.

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Chapter 4. Better job quality for longer working lives in Japan

Job quality is a key determinant of well-being for older workers and plays an important role in their decision to continue working or return to work. However, by international standards, Japan performs less well in terms of the quality of working conditions. A comparatively high share of workers experience job stain and suffer from excessive long hours of work, which can have a negative impact on their health. Under the Japanese employment system, many older workers 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, well-being and productivity. Measures which could be taken to improve job quality include: tackling labour market segmentation; eliminating excessive hours of work; better age management practices to utilise more fully the skills older workers and improve work-life balance; greater opportunities for self-employment; and better data on working conditions to provide the evidence-base for effective policies.

Introduction

Promoting good working conditions at all ages is essential for ensuring that people have both the ability and motivation to continue working at an older age. It is also essential to ensure that working conditions are adapted to meet the needs of underrepresented groups (e.g. women with young children, people with disabilities and older people) so that they can participate more fully in the labour market. This chapter, therefore, examines job quality in Japan and current policy initiatives to improve working conditions, including better employment opportunities such as through self-employment, and identifies where further policy action may be required.

Job quality and working conditions in Japan

Many Japanese workers face high job strain

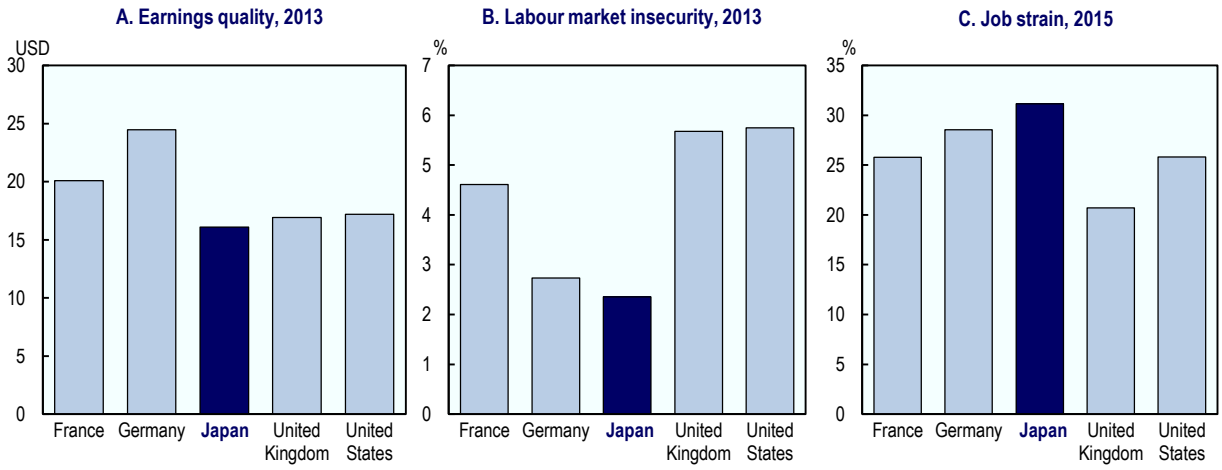
To measure and assess the quality of jobs in an internationally comparable way, the OECD has developed the Job Quality Framework with three objective and measurable dimensions that can be observed for all OECD countries (OECD, 2014[1]):

- The first dimension, ***earnings quality***, captures the extent to which earnings contribute to workers' well-being in terms of average earnings and their distribution across the workforce.
- The second dimension, ***labour market insecurity***, captures those aspects of economic insecurity related to the risks and economic costs of job loss, and is defined by the risk of unemployment and the benefits that would be received in case of unemployment.
- The third dimension, ***the quality of the working environment***, captures non-economic aspects of jobs including the nature and content of the work performed, working-time arrangements and workplace relationships. These are measured as the incidence of job strain characterised by high job demands with low job resources.

There is substantial evidence that these dimensions contribute to better employee wellbeing and health (Veldhoven and Peccei, 2015[2]; Stevenson and Wolfers, 2013[3]).

On average across all workers, earnings quality is slightly worse in Japan than in the other selected countries in Figure 4.1, although it is close to the OECD average. In terms of labour market insecurity, Japan has one of the lowest levels among OECD countries. This good score reflects Japan's low unemployment rate. However, Japan performs less well with respect to the quality of the working environment as a relatively high share of workers experience job strain (OECD, 2018[4]).

Figure 4.1. Job quality indicators in selected countries



Note: Earnings quality: Gross hourly earnings in USD adjusted for inequality. *Labour market insecurity*: Expected monetary loss associated with becoming unemployed as a share of previous earnings. *Job strain*: Percentage of workers in jobs characterised by a combination of high job demands and few job resources to meet those demands.
Source: *OECD Job Quality Database*, https://stats.oecd.org/Index.aspx?DataSetCode=JOBQ.

StatLink http://dx.doi.org/10.1787/888933890920

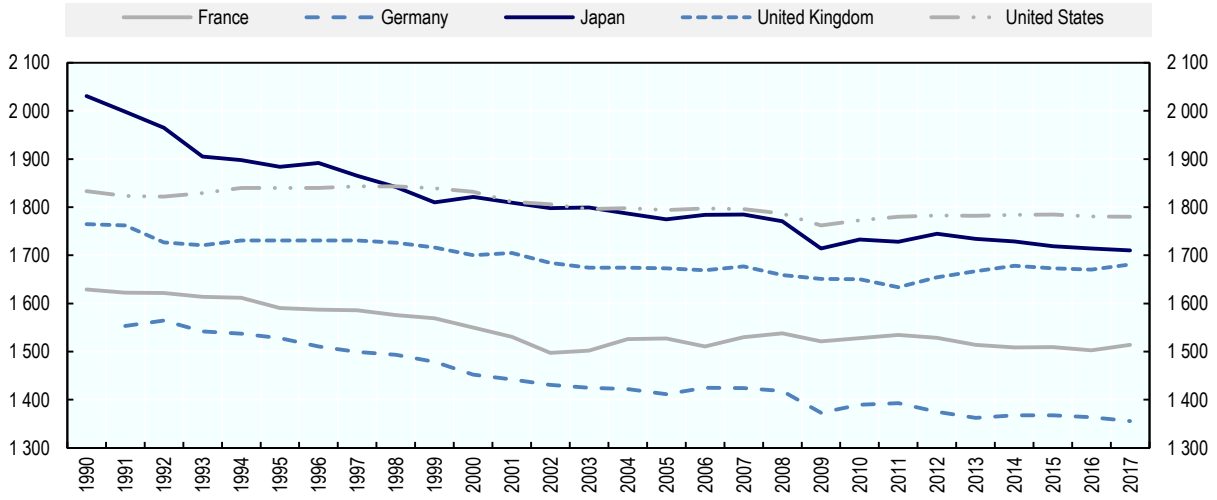
Poor working conditions have a compounding adverse effect on the health of workers over their working careers. People with poor health tend to work and earn less, which limit their chance to accumulate human capital in the market, resulting in a worse situation in later life (OECD, 2017[5]). Conversely, a recent European study shows that jobs with good working conditions play a protective role on physical health and psychiatric disorders. (Barnay, 2016[6]).

Long working hours are a major driver for high job strain

Long hours of work are one factor contributing to a poor working environment for many Japanese workers. For several decades, Japan has had one of the longest working hours in the OECD area (Figure 4.2). Average annual hours worked in Japan have fallen substantially since 1990 but mainly as a result of the substantial increase[1] in female and older workers with non-regular work contracts whose working hours are shorter than for other workers. Currently the average number of hours actually worked annually per worker in 2017 was 1 710, below the OECD average of 1 759 hours but still well above the number for France and Germany.

Figure 4.2. Trends in working hours for selected OECD countries

Average annual hours actually worked per worker, total employment, 1990-2017



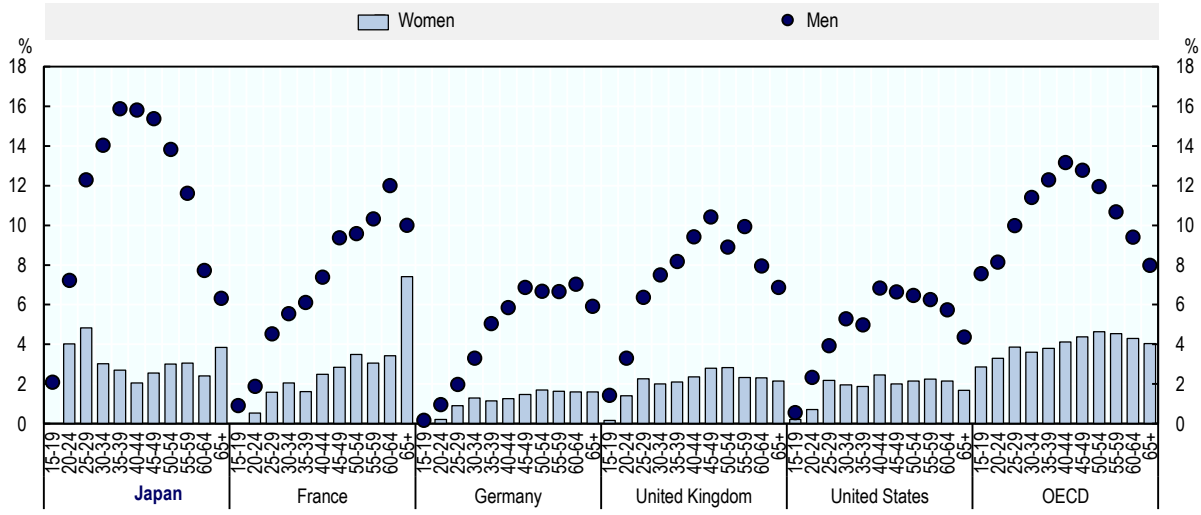
Source: OECD *Average annual hours actually worked per worked dataset*, http://stats.oecd.org//Index.aspx?QueryId=10162.

StatLink http://dx.doi.org/10.1787/888933890939

Nevertheless, a higher proportion of workers in Japan than in a number of other OECD countries suffer from excessively long hours of work (i.e. weekly hours of work of 60 hours or more) (Figure 4.3). This is true for workers in all age groups, except for those in their 60s or older. While employees in theory should be able to decide their work hours, previous research suggests that employers may have more power to determine the level of working hours in Japan[2]. The results of a survey by JILPT (JILPT, 2016)[3] also support this view. While only 6% of workers answer that they work longer to earn more, the biggest reason given is because "new tasks occurred suddenly and the amount of tasks has large fluctuations", which indicates that many Japanese workers may have little effective control over their working hours.

Figure 4.3. Workers with very long working hours by age and sex

Share of all workers[a] working 60 or more hours a week, 2017[b]



Note: The data refer to *actual* hours worked for Japan and to *usual* hours worked for the other countries.
a) Employees only for the United States.
b) Year 2015 for France, Germany and the United Kingdom.
Source: *OECD Employment Database*, www.oecd.org/employment/database.

StatLink http://dx.doi.org/10.1787/888933890958

Long working hours are a long-standing problem facing Japanese workers. Ample evidence show that long working hours can lead to a deterioration in health and in extreme cases to suicide (see Box 4.1). Having good physical and mental health is paramount for older workers to stay in the labour market. Long working hours not only have a direct effect on the labour force participation of older people but it also has an indirect effect as they can have an adverse impact on participation in education and vocational training, which in turn perpetuates a high incidence of low-quality jobs.

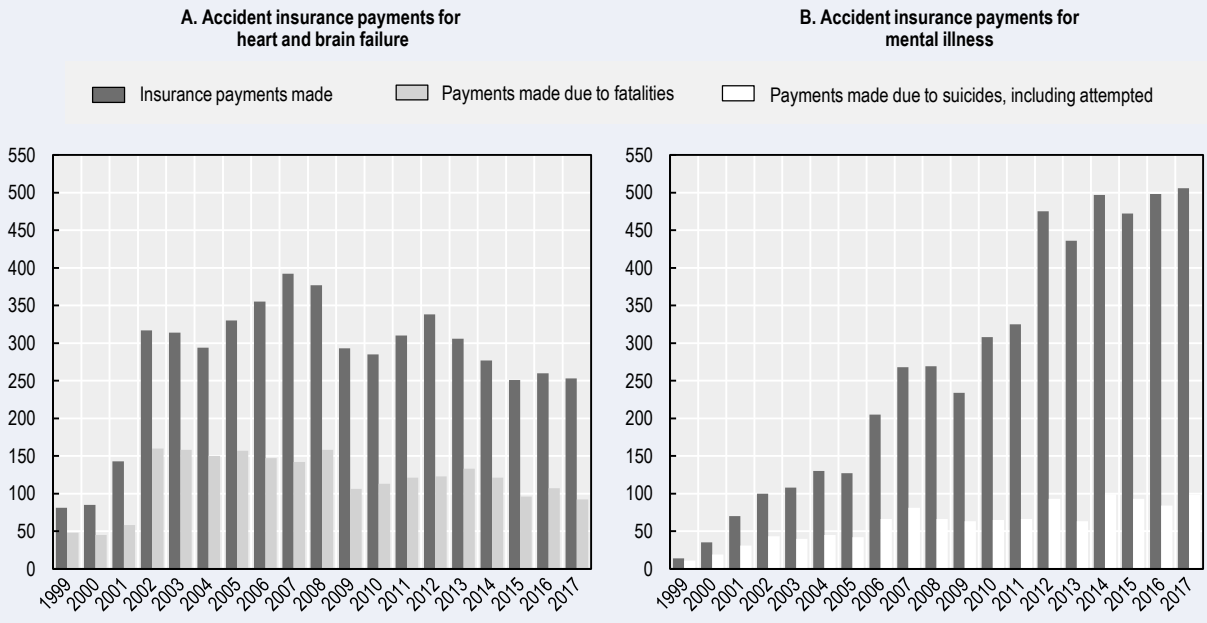
More generally, the social burden of mental ill-health is substantial. In on study, the accrued cost of the mental ill health was estimated for 2008, including both the direct costs (healthcare costs and social service costs) and indirect costs (morbidity - including absenteeism and presenteesim, and unemployment costs – and mortality costs) (Sado et al., 2013[7]). The total cost was estimated to be about JPY 2.39 trillion. In particular, absenteeism and presentism (workers present at work but working below their potential productivity) account for the largest share of all costs (59%). The importance of mental health problems has tended to increase over time, of which depression has become the main mental illness in Japan and so should be tackled as a matter of priority.

Box 4.1. White paper on "*Karoshi*"

In October 2016, MHLW published its first white paper on *karoshi*, assessing the problem of death caused by overwork. Excessive working hours can cause physical and mental exhaustion, impairing health and sometimes leading to death caused by overwork, known as *karoshi* in Japan. Although recognised as a social problem as early as the second half of the 1980s, it was not until 2014 that a law addressing *karoshi* was passed.

According to the analysis in the white paper, payments in cases where death was caused by heart or brain failure have fallen slightly since the 2000s. By contrast, compensation payments related to deaths caused by mental illness have gradually risen. In 2017, there were 506 cases where claimants are approved of labour insurance pay-outs due to depression or other mental illness deriving from the heavy psychological burden of work.

Figure 4.4. Number of accident insurance payments



Source: Japanese Ministry of Health, Labour and Welfare, "Accident Insurance Payments due to *Karoshi*".

StatLink http://dx.doi.org/10.1787/888933890977

A recent MHLW survey[4] found that 22.7% of firms had full-time employees who worked more than 80 hours overtime per month. The industries with the highest proportion of employees crossing this line were information and communications (44.4%), academic research and specialist and technical services (40.5%), and transportation and postal services (38.4%).

Working conditions are highly correlated with mental health

A variety of socio-economic factors generate job strain, leading to risk of injury and mental ill-health. However, the literature suggests that working conditions play a primary role, including long working hours. The National Institute for Occupational Safety and

Health (NIOSH)[1] in the United States has put forward a conceptual framework for understanding the structure of stressors and their effect on mental health. Based on this framework, the OECD has investigated the factors causing mental health problems among Japanese workers using microdata from the Japanese Panel Study of Employment Dynamics (JPSED) in 2015 and 2016. Potential bias in estimating the impact of working conditions on health status because of reverse causality[5] has been controlled for by using the panel feature of the JPSED. A more detailed explanation of the estimation methodology is given in Box 4.2.

Box 4.2. Fixed logistic model on mental health

The impact of working conditions on mental health were estimated using the Japanese Panel Study of Employment Dynamics (JPSED) in 2015 and 2016 carried out by the private company, the Recruit Works Institute. For the survey, about 50 000 people were interviewed, covering a wide range of questions, such as family situation, detailed work information, training, job satisfaction and stress situation, etc.

The key indicator of mental health stress is constructed on a scale of 1-5 as an aggregated score based on the following mental-health related information: 1) experiencing headache and dizziness; 2) experiencing backache and stiff shoulder; 3) experiencing heart palpitation and short of breath; 4) feeling tired out; 5) feeling nervous; 6) depressed; 7) no appetite; and 8) trouble getting to sleep. Using these aggregated scores, the top 25 % of the samples are categorised as being a mentally-stressed group and the remaining group is regarded a low-stressed group in the analysis.

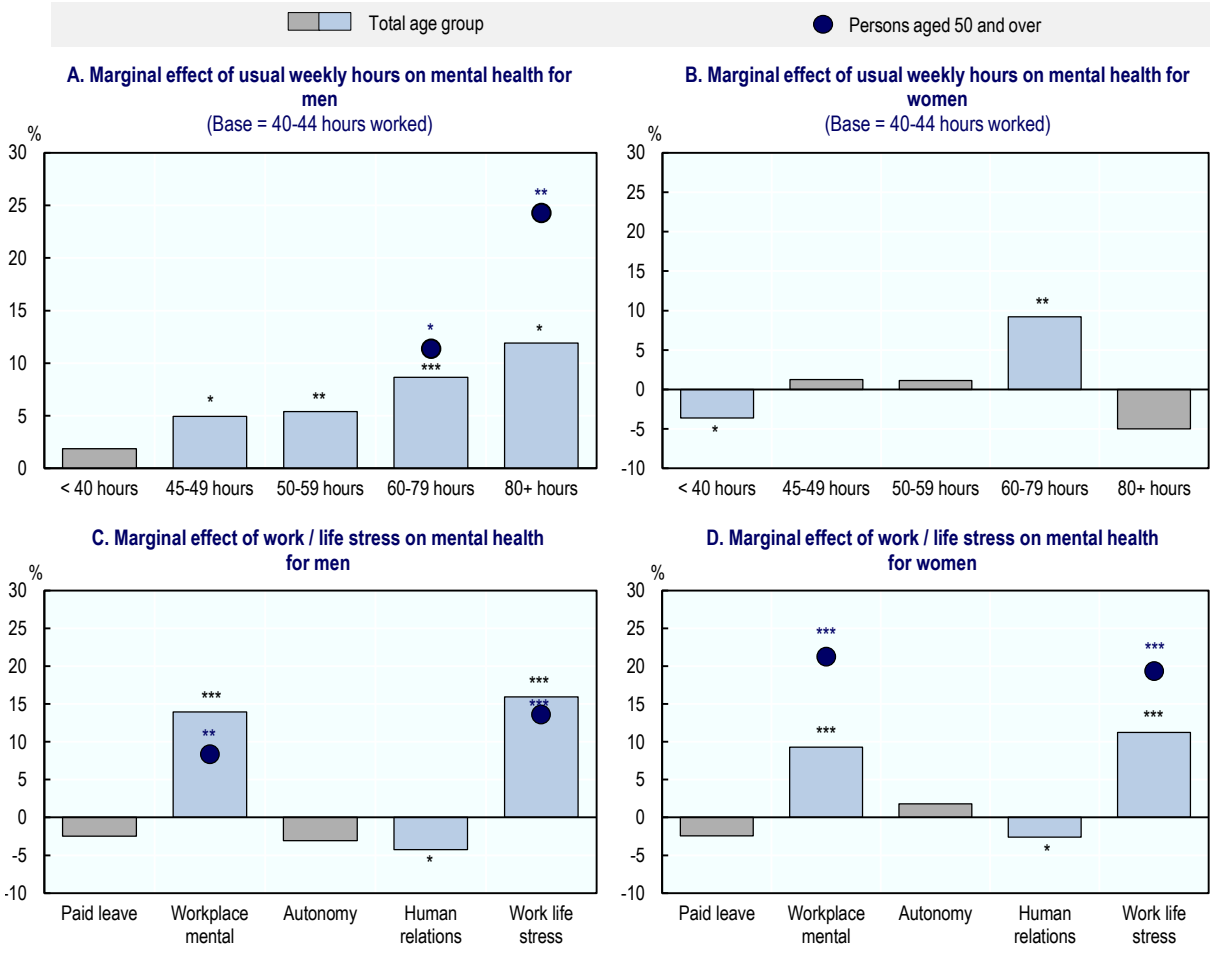
The selected explanatory variables are usual working hour per week, current age, and other work and life factors, including: 1) fully using up paid leave entitlement or not; 2) there were colleagues having mental ill-health due to stress or not; 3) able to work in desired way or not; 4) satisfied with human relation in the workplace or not; and 5) work-life balance is stressful or not.

The fixed-effect logit model is used in the analysis to control for an individual specific component (i.e. all unobserved fixed factors) which may bias the estimation due to reverse causality between the health indicators and explanatory variables.

Figure 4.5 presents the marginal effects of individual characteristics, and work and life factors as well. Working hours have a significant effect on mental health especially among men. Persons working 45-59 hours per week are exposed to high mental stress by 5 percentage points more than persons working 40-44 hours. This impact becomes larger as people work longer hours. By age, when controlling for other factors, older men are more likely to report higher mental stress. In particular, working more than 80 hours per week has a substantial impact on stress, which could indicate some cumulative adverse impact of working conditions over careers and lower tolerance of stress at older ages. Thus, special consideration of long working hours may be needed for older workers. The workplace environment and work-life balance factors also have a significant impact on mental health. A lack of work-life balance, in particular, has a strong negative influence on a worker's mental condition, especially for older women. In addition, it would appear that a worker's own mental health is adversely affected by exposure to other colleagues who are experiencing mental stress. This suggests that workplaces where some workers may be experiencing mental stress need to avoid placing additional work burdens on

other workers and provide adequate assistance and counselling to all workers in dealing with mental health problems.

Figure 4.5. Effects of working hours and other work-life factors on mental health



Note: The figures shows estimates of the marginal impact of selected variables on the Mental Health Index (see Box 4.2). The benchmark group for working hours is 40-44 hours. The variables for work and life stresses are 0-1 dummy variables. These effects are estimated with controls for employment status, firm size, industry and job position. Bars stand for the effects of variables for ages 25-70 and blue bars indicate statistically significant. Markers show effects of only statistically significant variables for ages 50-70. One, two and three stars indicate levels of statistical significance at 10 %, 5% and 1 %, respectively.
Source: OECD calculations based on *Japanese Panel Study of Employment Dynamics* (JPSED) provided by the Recruit Works Institute for Japan in 2015 and 2016.

StatLink http://dx.doi.org/10.1787/888933890996

Japanese labour practices can have an adverse impact on older workers' job satisfaction and productivity

Older workers are unsatisfied with wage reductions after mandatory retirement

In addition to working conditions, the economic literature suggests that earning losses, such as those experienced by many older Japanese workers following mandatory

retirement, can have a significant negative impact on workers' health, job satisfaction and productivity.[6] As discussed in the Chapter 2, the Japanese employment system is one of the biggest factors in deciding the wage level of older workers. Following mandatory retirement, many older workers face significant wage reductions even when rehired in jobs with similar responsibilities and tasks compared with their previous ones. A firm-level survey finds that about 80% of older workers rehired by the same firm do not experience any change in their job duties (JILPT, 2016[8]). On the other hand, the wage rate is significantly reduced after mandatory retirement. The share of those who experience a wage reduction of more than 40% is around 30%, while only 10% of them earn the same as previously.

In general. Japanese older workers are not satisfied with these unbalanced wage cuts against unchanged job duties and working conditions. An individual-level survey asks older workers about their perceptions of wage reductions (JILPT, 2015[9]). Thirty percent of rehired older workers said that the "wage-cut is not convincing because their job duties have hardly changed", 20.8% declared that the "wage-cut is not convincing because their contribution to the company is not lower than previously" and 17% reported that "although the weight of work responsibility has changed slightly, the wage was reduced too much".

Individual differences in wages can be a driver to motivate workers to be more competitive and work harder, which may result in better performance. However, perceptions of unjustified wage cuts could reduce workers' cohesiveness and increase feelings of relative deprivation, which may lead to lower productivity (Pfeffer and Langton, 1993[10]; Franck and Nüesch, 2011[11]; Mahy, Rycx and Volral, 2011[12]).

Older workers have fewer opportunities to use their skills fully

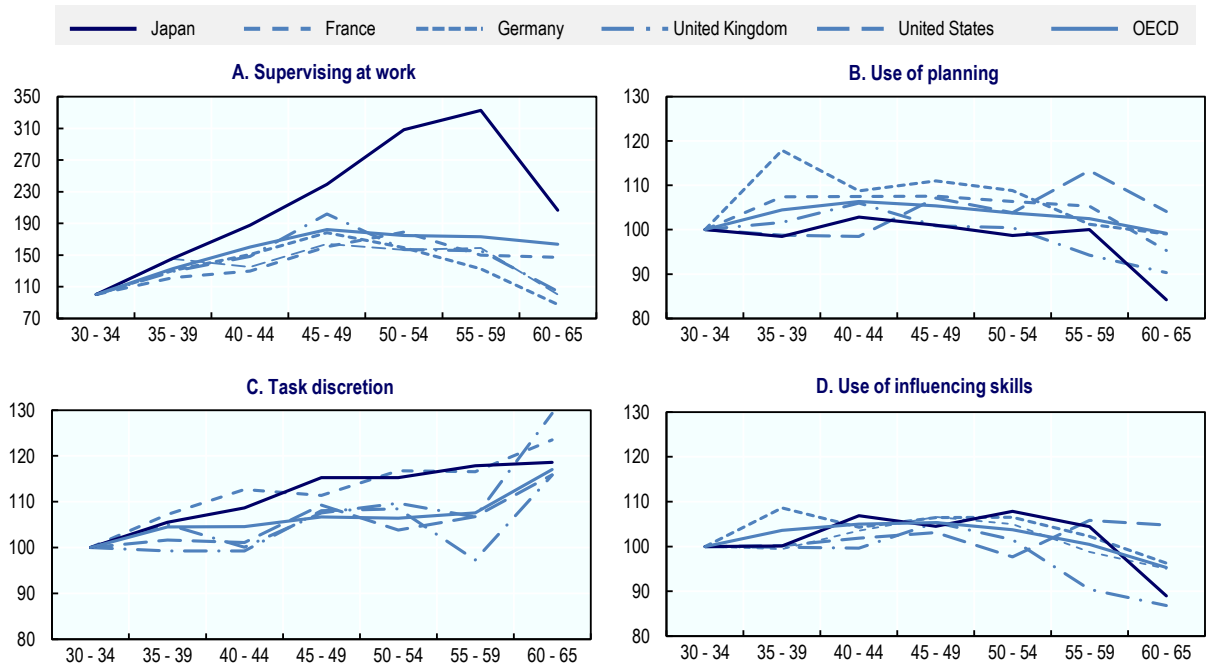
While work duties and tasks for some older workers change little when re-hired after mandatory retirement, and despite large wage cuts, they may change considerably for others. This can lead to the underutilisation of their skills. Some insights into this process can be obtained from the OECD's Survey of Adult Skills (the so-called PIAAC survey) which gathers information on skill use based on detailed questions about the tasks performed by workers in their jobs. Answers to these questions have been combined to obtain four indicators of job complexity: i) whether workers have a responsibility to supervise other workers; ii) the extent to which individuals engage in planning; iii) the degree of task discretion workers have in their work; and iv) the extent to which their job requires them to exert influence on other individuals (Figure 4.6).

A striking fact is that the use of supervisory skills rises much more steeply with age for Japanese workers than for workers in a number of other OECD countries. This is associated with the Japanese employment system in which new graduates without specific job-related skills are hired by firms into long-term employment relationships immediately after graduating schools. Their mentors, responsible for their on-the-job training to acquire the firm-specific skills they need, are typically young senior employees who started to work several years earlier. Subsequently, as seen in the Chapter 1, workers in their 40s or 50s are promoted to managerial positions requiring more intensive use of supervisory skills. In contrast, while task discretion increases with age, the use of other skills such as planning and influencing are more stable over working careers in all of the selected OECD countries. Japan stands out for the more pronounced decline in skills use for workers after the age of 60, except for task discretion.

These profiles of skill use by age provide evidence in support of the role of age-management practices in Japan which result in many older workers switching to jobs with fewer responsibilities following mandatory retirement which involve less use of the skills than they were using previously in their former jobs. Perceived skill utilisation has consistently been found to be amongst the strongest predictors of job-related well-being and perceived job satisfaction. Thus, improving the opportunities for older workers to fully use their skills should be a priority for the reform of human resource management practices in Japan. It could also help to boost the productivity of older Japanese workers.

Figure 4.6. Older workers are less likely to supervise colleagues, use planning and influencing skills

Skill use at work across different age levels, employed individuals (age group 30-34 = 100)



Note: The OECD average is an unweighted average of the data for all OECD countries, excluding Hungary, Iceland, Latvia, Luxembourg, Mexico, Portugal and Switzerland. Data for the United Kingdom refer to England and Northern Ireland. Results are presented as an index relative to the response of those respondents aged 30 to 34 years. In all cases, the estimates were obtained after controlling for gender and the educational attainment of workers and their parents.
Source: OECD calculations based on the Survey of Adult Skills (PIAAC) (2012, 2015), www.oecd.org/skills/piaac/..

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Wage reductions and skill under-utilisation have a negative impact on job satisfaction of older workers

The effects of wage cuts and other potential factors on job satisfaction can be estimated using the 11-years Longitudinal Survey of Middle-aged and Elderly Persons in Japan. In this survey, job satisfaction is measured subjectively and evaluated on a five-point score. A logistic regression was carried out where the scores for job satisfaction (the dependent variable) were collapsed to either zero (not satisfied) or one (satisfied). The explanatory variables included the subjective perceptions of respondents concerning their skills

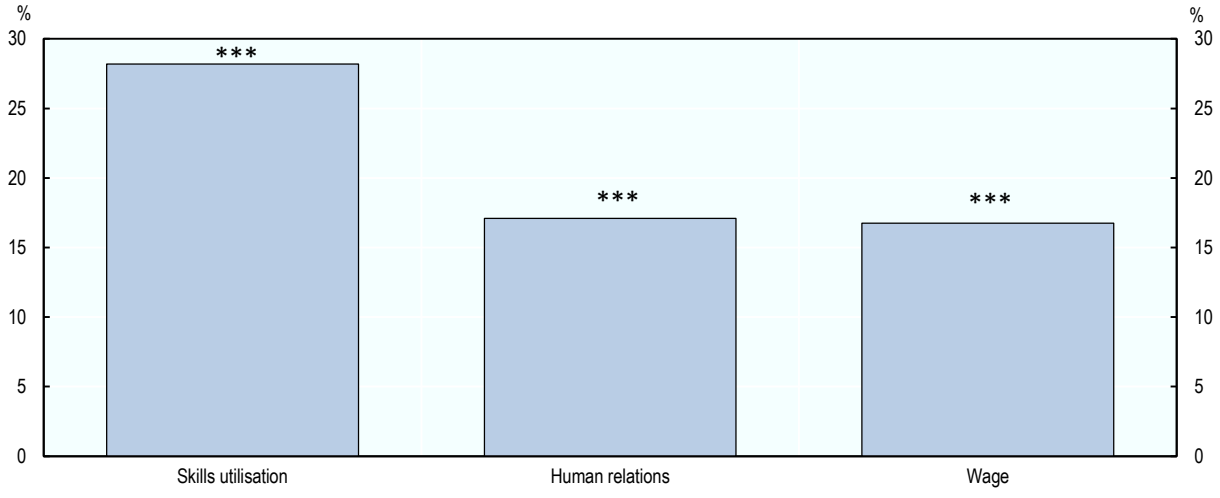
utilisation and human relationships[7] in the workplace as well as their working hours and log wage rate.

The regression results for workers aged 60 and over indicate that, if they can fully use their skills or that their workplace human relationships are satisfactory, the probability of job satisfaction is increased substantially (by 28% and 17%, respectively). Thus, the large declines in skill utilisation for workers after the age of 60 that are evident in Figure 4.6Figure 4.7 are likely to translate into large falls in job satisfaction. The impact of 10% wage changes on job satisfaction also has and important impact with an increase of 17% in the probability of job satisfaction. Assuming that this relationship is linear, a 40% wage reduction – of the magnitude that many older workers experience following mandatory retirement – results in an 81% increase in the probability of job dissatisfaction.

Job satisfaction will not only influence an individual's work performance, but also firm level productivity. Satisfied workers have more motivation and organisational loyalty, and show less counterproductive organisational behaviour and decreased absenteeism. Thus, working conditions are a key factor ensuring that workers remain highly motivated and productive at an older age.

Figure 4.7. Effects on workplace factors, working hour and wage on older workers' job satisfaction

Marginal effects of selected factors on job satisfaction for workers aged 60 or more



***, statistically significant at the 1% level.
Note: The figures shows estimate s of the impact of selected variables on the job satisfaction. The benchmark group on work hour is 40-44 hours. The ability utilisation and human relations are dummy variables. If people are satisfied with those, 1 is assigned (otherwise, zero). The effect of a change in wages is calculated for a 10% increase. These effects are estimated with controls for employment status, firm size, occupations and income type.
Source: OECD calculations based on the Japanese Ministry of Health, Labour and Welfare *Longitudinal Survey of Middle-aged and Elderly Persons*.

StatLink http://dx.doi.org/10.1787/888933891034

Measures to enhance working conditions for older workers

Recent reforms on reducing working hours go in the right direction but more needs to be done

There has been considerable awareness of the need to reduce excessive overtime hours in Japan. The media have highlighted recent cases of "Karoshi" linked to excessive overtime, which has triggered a national debate about Japan's work practices and put pressure on the authorities to take action. In response, the Japanese government launched the "Council for the Realisation of Work Style Reform" with the social partners in 2016. A package of work-style reform bills based on the action plan approved by the council was passed by the parliament in June 2018 (see Box 4.3).

Box 4.3. The Work Style Reform package

On 29 June 2018, the parliament approved workstyle reform legislation which is a package of changes to eight laws mainly aimed to change Japan's long working-hour culture and reduce the gap in working conditions between regular and non-regular workers.

1. ***Limits on overtime*** to 45 hours per month and 360 hours per year. These limits can be exceeded in the case of special, temporary circumstances. However, in these cases, overtime for any individual month must be less than 100 hours, the monthly overtime average over multiple months may not exceed 80 hours, and annual overtime may not exceed 720 hours.
2. ***Establishing a High-Skilled Professional System***: a new work option was introduced which exempts employees engaged in certain specialised work from regulations on working hours while strengthening measures for the protection of employee health, such as obligating employers to provide such employees with at least 104 days of annual leave.
3. ***Ensuring Fair Working Conditions Regardless of Employment Type*** by setting out rules intended to eliminate an unreasonable gap between the working conditions of regular employees and those of part-time employees, fixed-term employees, and dispatched employees.

One of the main purposes of the reform is to introduce mandatory overtime-hours caps for the first time in the history of Japanese labour regulation. Under the current working hour regulations, employees can work overtime unlimitedly if there is a written agreement between the employer and the representative of a majority of his or her employees. Under the new legislation, overtime work will be limited to 45 hours per month and 360 hours per year in principle. However, there is still an exemption for overtime work with an employer-employee agreement. During busy times, employers will be able to order employees to work beyond the 45-hour limit up to a maximum of 100 hours per month with an agreement but subject to not exceeding an annual limit for overtime work of 720 hours. In addition, the government has set a penalty (of less than 6 months imprisonment and JPY 300 000) for firms that violate these limits. While this policy reform goes in the right direction, it is unclear that this legislation will effectively change Japan's long working hour culture.

One big concern is that the very long overtime work is still allowed and can exceed the "Karoshi" line of 80 hours per month without incurring any monetary penalty. The analysis above (Section 4.1.2) suggests even working hours of well below 80 hours per week could be harmful for mental health. Therefore, it will be important that the government monitors closely how firms change their working-time practices. If the situation does not improve much, the government should consider additional measures, such as a stricter cap and higher penalty wages for overtime work.

Compliance is also an issue and, in particular, the compliance of small firms should be improved. According to a MHLW survey (2013)[8] prior to the most recent changes in overtime regulation, 59% of small firms did not have a labour-management agreement on overtime and holiday work, whereas over 92% of large firms had an agreement. Some 34% of small firms did not realise that they had to submit an agreement to the LSIO (Labour Standard Inspection Office) and 13% forgot to do so. Moreover, a survey[9] by the Japanese Trade Union Confederation (RENGO) indicates that some 44% of workers did not realise that employers should have an agreement to be able to order workers to work beyond their regular work time. Therefore, the government should seek to raise the awareness of the system especially for small firms and workers as well.

While the recent reform seeks to strengthen working-time regulations, it also established a scheme for skilled professional workers with high wages which exempts them from these regulations. The scheme makes sense for workers who have autonomy not only to decide their working style but also workload. However, this may not always be the case. As one study observes, workers even under the current "discretionary working system"[10] work longer because their work content and workloads are determined by employers or clients (Takami, 2018[13]). To ensure autonomy for this type of workers, workers and employers should agree not only on job responsibilities and working time arrangements but also on their workload. In addition, even though these workers are exempted from the working-time regulations, companies should still be obliged to check that the working hours of these workers are compatible with good management of their health. Again, it will be important that the government monitors closely how the scheme will be implemented at the individual workplace level in terms of working time, health status and compensation.

The government should also consider introducing legal obligations in interval-time regulation (i.e. rest periods between periods of work) that would be applicable to all workers. The Japanese government is well aware of this necessity. The MHLW already established the Overtime Work Improvement Subsidy (*Jikangai Roudou tou Kaizen Zyoseikin*) from fiscal 2017, and encourages the introduction of rest time for small and medium-sized enterprises. In addition, the recently revised Act on Special Measures for Improvement of Working Hours Arrangements will require firms to make "efforts" to set the interval rest time. However, relying on voluntary efforts by firms may not be sufficient. At present, only 1.4% of firms have introduced this system according to the General Survey on Working Condition 2017, which indicates that, even with a monetary incentive, firms' voluntary efforts are likely to be limited. In addition, the target of the subsidy is modest. Currently, to receive the subsidy, firms need to establish an interval rest time of at least 9 hours in their rules of employment. Compared with the EU directive on working time[11] ensuring at least 11 consecutive rest hours per day, this requirement is not very onerous for firms. Moreover, commuting time in Japan is the second longest among OECD countries (OECD, 2016[14]). Thus, it may be desirable to introduce enough mandatory rest time taking into consideration commuting time. For health reasons and for a better work and life balance, this regulation should also be applied to discretionary workers and high-skilled professionals who are exempted from overtime regulations.

Job strain needs to be addressed more effectively

While long working hours should be tackled to improve the well-being of older workers, a general prevention scheme for mental health in the workplace is necessary in view of the growing absenteesm attributable to mental ill-health. Moreover, poor mental health results in poor job performance and productivity losses (OECD, 2015[15]).

In Japan, with the amendment of the Occupational Safety and Health Act of 2014, a new "Stress Check System" was mandated in firms with more than 50 employees from December 2015. The purpose of the system is to: 1) decrease the risk of mental health problems in workers through periodic surveys and feedback; 2) decrease work-related stressors by analysing stress survey results and improving the work environment; and 3) prevent mental health problems by screening for high-risk workers and providing them with opportunities for interviews with a physician (Kawakami and Tsutsumi, 2016[16]).

Scientific risk assessment and management at the workplace has been encouraged by a number of international bodies (WHO, ILO). While recent Japanese policy initiatives in this area are welcome, there is room for improvement of the stress check scheme in Japan. Enforcement of the stress check is a key issue. As of June 2017, about 17% of firms with 50 employees and more did not implement the stress check for employees. This non-implementation rate becomes higher the smaller firms are. Thus, the government should take further measures to ensure implementation of the system and consider to expand coverage of the legal obligation to smaller firms, taking into account cost issues.

Another key gap is the lack of legal obligations for small establishments with less than 50 workers, although they are encouraged to make efforts by the act. This is critical as almost 95% of workers are employed in these smaller establishments. It will therefore be important to cover those employees. Strengthening the outreach service for small establishments by the Industrial Insurance Center ("*Sangyou Hoken Sogo Center*") could be a good option for better mental health prevention.

Even where firms provide opportunities for workers to take the stress check as the law requires, not all workers diagnosed as highly stressed seek appropriate medical treatment due to a lack of information about the stress check test and potential stigma effects. According to one study (Kawakami and Tsutsumi, 2016[16]), only a limited fraction of highly stressed workers underwent a medical interview. The government should make more efforts to increase awareness of employers on proper implementation and follow-up of the stress test. In addition, under the current scheme, workers have to make a request to their employers before taking a medical interview. However, this process would discourage stressed workers to do so because informing firms of their job strain may damage their personnel evaluation. The process to inform employers should be revised to protect workers' confidentiality and anonymity.

One area of potential interest which could be developed further is in carrying out "collective analysis" in which the diagnostic results of the stress test are statistically analysed to identify problematic workplaces and used to improve workplace-level management. This could be a new data-driven management method if linked with high performance work practice information so that more healthy practices could be identified. In addition, building upon the recognition that the workplace is a core determinant of peoples' health, the scope of the analysis should be broaden to include other health data, such as the national data base of medical fee receipt information[12]. Better data on working conditions more generally are needed to identify the links between work and health. For

example, the European Working Conditions Survey is carried out every five years and provides a wealth of data on the working conditions of workers and their health status which can be analysed by a range of firm and worker characteristics.

It is also important to strengthen the functions and responsibilities of industrial physicians. Currently, industrial physicians cover a wide range of occupational health activities, such as participation in the health committee, workplace monitoring and improvement of the workplace environment, implementation of health check-ups and follow-up treatments, interviews on overwork, etc. In the process of the stress check, industrial physicians have a key role to improve workplace practices. Nevertheless, for a better implementation of the stress check scheme, there needs to be closer cooperation and coordination between management and industrial physicians as well as with other health professionals such as psychologists. Other countries have taken a range of approaches to ensure a more joined-up approach to improving health at work through a range of preventative measures such as obligatory psychosocial risk assessment of working practices or the use of financial incentives to improve working conditions such as experience-rating of accident, sickness and disability insurance premiums paid by employers to cover their workers (see Box 4.4). Some of these initiatives could serve as useful examples for Japan to strengthen its policies to promote healthier working conditions.

Box 4.4. International examples of strategies to improve health at work

Finland: As part of the *National Working Life Development Strategy to 2020*, which was introduced in 2012, various measures to prevent ill-health as a result of work are widely available to the working population at all ages and especially to people aged 45 and over.[13] In addition, through the so-called "age bus stop" in occupational health centres in some municipalities, a full medical screening is provided free of charge. This allows the early recognition of diseases that are not readily conspicuous (de la Maisonneuve et al., 2014[17]).

Austria: The *fit2work* programme, rolled out nationwide in 2013, provides information, counselling and support to employed or unemployed persons with health problems, and to employers in need of information on health and work.[14] The assistance is voluntary, confidential, and free of charge. It thus serves as a nationwide low-threshold counselling service to reduce periods of sick leave, sustain working ability, and prevent job loss or early retirement for health reasons. The programme is coordinated by the federal Ministry of Labour, Social Affairs and Consumer Protection, and financed from the labour market budget, by social insurance institutions (pensions, health and accident insurances) and the Federal Social Office. The Public Employment Service, the Labour Inspection, the social partners, and the federal Ministries of Health, Finance, Economy, Family and Youth are also involved (OECD, 2018[18]).

Switzerland: The Accident Insurance SUVA is also implementing preventive measures and is counselling companies (OECD, 2014[19]).

Germany: In 2007, the *Joint Health and Safety Initiative* was set up to improve safety and health protection in workplaces. To ensure that measures are not carried out in a sporadic fashion, it was conceived of as a joint undertaking between the federal government, the federal states, accident insurance funds, and the social partners. Joint health and safety centres provide around eleven work programmes in industries where

prevention of poor health as a result of work is particularly important (construction and assembly work, temporary work, work in wet conditions, activities with irritant substances, office work, company-based and public transport, nursing, asymmetric and restricted-motion activities at production workplaces and in the food industry, precision installation activities, and work in catering and hotels) and also work to raise awareness of occupational safety and health in schools (OECD, 2018[20]).

United Kingdom: The Department for Work and Pensions developed a specific initiative for providing small and medium-sized businesses with a greater capacity to deal effectively with health issues and sickness absence, through measures such as the national occupational health advice services. These provide employers and employees in small and medium sized businesses with easy access to quality, professional, tailored advice on individual employee health issues, including mental health and well-being (OECD, 2018[21]).

European Union: The European Agency for Safety and Health at Work (EU-OSHA) E-guide "Health and safety at work is everybody's business" is a practical tool to help employers and workers manage occupational safety and health in the context of an ageing workforce.[15] The E-guide offers simple explanations of the issues, along with practical examples of how to deal with risks relating to ageing and how to make sure that all workers stay safe and healthy in the long term, as well as links to further resources. In 2014-15, a European campaign – "Healthy-workplaces – manage stress well" was launched, which was followed by another two-year European campaign, "Healthy workplaces for all ages", in 2016-17.

Belgium: As from 2005, the *Occupational Experience Fund* financially supports companies for projects intending to improve the quality of jobs of workers aged 45 and over (occupational safety, health, ergonomics and psychosocial charge).

Denmark: The *Fund for Better Working Environment and Labour Retention* launched "prevention self-help kits" with financial assistance to enterprises in 2012 (OECD, 2015[22]). These provide step-by-step instructions for improving health and safety conditions and employees' health in industries with a high risk of early exit and burnout. A special "Senior Starter Kit" was introduced in 2013.

Sweden: The Swedish Work Environment Authority has issued provisions on workplace adaptation and rehabilitation, where it is stated that the employer must adapt the working situation to the aptitudes of each individual workers, as required by the Work Environment Act. The authority issued a regulation that all employers are responsible for conducting systematic work environment management, called SAM, in the workplace. SAM is a system, in force since 2001, which is designed to incorporate work environment management as an integral part of everyday work. SAM also includes a risk assessment, which requires all employers to take account of and investigate psychological and social conditions, as well as issues of a physical nature with the aim of preventing accidents, illnesses and injuries. SAM is assessed by inspectors from the Work Environment Authority (OECD, 2018[23]; Fries-Tersch and Said, 2016[24]).

The Swedish Occupational Health Service *(Företagshälsor)* is a trade association for occupational health and safety consisting of about 150 companies with 500 offices that provide expertise in the field of working conditions and rehabilitation. Employers can hire occupational health and safety consultants (e.g. nurses, doctors, physiotherapists) who work on the prevention or rehabilitation of work related injuries, for assistance with

the investigation of occupational injuries, substance abuse and stress. Occupational Health Services may also be called upon by the Social Insurance Agency to help assess the work capacity of workers with long-term sickness absence from work. The Swedish Government allocates grants to providers of occupational health services in order to provide services for the medical prevention, investigation and treatment of work-related and non-work-related illnesses and injuries (OECD, 2018[23]).

Canada: The federal government established the Mental Health Commission of Canada (MHCC) in 2007 to maintain an ongoing national focus on mental health issues. The MHCC's role is to act as a catalyst for improving the mental health system and for changing the attitudes and behaviours of Canadians related to mental health issues by bringing together leaders and organisations from across Canada. On 8 May 2012, the MHCC unveiled a new "Mental Health Strategy for Canada". It included a new "National Standard of Canada for Psychological Health and Safety in the Workplace", which was released in January 2013.[16] The Standard sets out a framework that offers guidance to Canadian businesses and organisations in creating psychologically healthy and safe workplaces. This process includes: i) identifying and eliminating hazards; ii) assessing and controlling the risks associated with hazards; iii) implementing practices that support and promote psychological health and safety; and iv) fostering a culture that promotes mental health and safety. The compliance component of the Standard is the establishment of a psychological health and safety management system (PHSMS), which can help employers to recognize, evaluate, and plan for these risks. Although the Standard was not developed specifically for older workers, the implementation of a PHSMS could be of direct benefit for them through a reduction in disability and injury rates. The Standard has received very positive responses from unions, employers, employees and the media, and has been adopted fully or partially by a number of businesses, universities and provincial governments.

France: The "personal occupational hardship account" (*Compte personnel de prévention de la pénibilité*), established by legislation in January 2015, gives employees who are exposed to occupational risk factors extra 'points', which are credited to a personal account (OECD, 2014[25]). These points can be used to attend a vocational training programme to move on to less exposed jobs, finance a period of part-time employment or acquire pension rights and thus retire earlier. As most employers have not been supportive of this account, which they consider very complex to implement, the new government is currently redesigning this account.

Strengthening the role of labour inspectors

Proper application of labour legislation depends on an effective system of labour inspectorate. As workplace issues become more prominent and complicated, the role of labour inspectors in monitoring working conditions has become more important. Across the OECD they are involved in carrying out controls, imposing fines and providing consultancy services.

With regard to health issues, the ILO points out that increasingly inspectors are directly involved in workplace risk prevention strategy: "The inspector is playing a proactive, anticipatory role, operating directly within the workplace" (ILO, 2011[26]). Some country examples of the role of labour inspectors in relation to the working conditions of older workers are provided in (Box 4.5).

Box 4.5. International examples of the role of labour inspectors in promoting occupational health and safety

Estonia: The Occupational Health and Safety Act obliges employers to conduct risk assessments, which involve identifying workplace risk factors and assessing the potential risks to employees' health and safety, taking their age and gender into account. Since 2009, the employer is also required to devise an action plan to address and avoid safety and health risks for their employees on the basis of the risk assessment (OECD, 2018[27]). The Estonian Labour Inspectorate regularly carries out different activities to raise awareness among employers and employees regarding the importance of good working conditions. The Estonian Labour Inspectorate publishes a journal on this four times a year ("Working Life"). It organized a campaign on working with machinery in 2017, and campaigns on the right to instruction, job contract negotiations and healthy workplaces for all ages (with EU-OSHA) in 2016.[17]

Lithuania: Since 2013, it is mandatory for all employers to prepare and submit a declaration on occupational safety conditions in their enterprises to the State Labour Inspectorate. Regional inspectorates monitor whether or not employers are in compliance with the requirements of collective agreements in relation to contract award, execution, and completion. Their task also includes checking for discrimination related to older and disabled workers and ensuring equal opportunities for development (Kaminskas Kazys Algirdas and Fries-Tersch Elena, 2016[28]). An increasing focus of the work of labour inspectors is on prevention, advice and consultation. Labour inspectors have developed risk assessment and inspections often targeting smaller businesses and specific sectors which are most likely to infringe law. However, sanctions may be too low to effectively dissuade violations (OECD, 2018[29]).

Germany: Since March 2009, the Committee of the Länder for Occupational Safety and Health (LASI) has been producing handbooks and checklists for inspectors, as well as organising training courses, with the aim of mainstreaming psychosocial risks into the inspection procedures of the federal states.

Denmark: Labour inspectors include trained psychologists and, since 2000, the labour inspectorate has produced a publication entitled *Surveying the psychosocial environment*, to inform the general public on approaches to such risks and to serve as a handbook for inspections (ILO, 2011[26]).

Austria: Since 2007, the Austrian labour inspectorate has prioritised advising and monitoring actions in small and medium-sized enterprises (SMEs). The aims of the strategy include: motivating companies to analyse the workforce's age structure; identifying harmful work processes and practices that could be specifically linked to age; and establishing age-friendly working conditions. Since 2013, special guidelines for the various labour inspectorates have been developed on the website of the Austrian Labour Inspection, in addition to a range of leaflets for experts and companies.[18]

Tackling labour market dualism and ensuring equal pay for equal work

Both older workers after manadatory retirement and many women at all ages are likely to be working as non-regular workers. Consequently, they may face a large gap with regular workers in terms of wages, training opportunities and poorer working conditions, all of which may perpetuate their vulnerable positions. The Japanese government is aware of the importance of the "Equal Pay for Equal Work" (EPEW) to deal with the differential treatment in working conditions between regular and non-regular workers. As part of the workstyle reform legislation package, the Act on Improvement of Employment Management for Part-Time Workers, the Labour Contracts Act and the Worker Dispatching Act were amended to rectify unjustified discrimination in terms of the working conditions of part-time, fixed-term contract and dispatched workers. The revised acts require that employers must consider the reasonableness of differences across contract types in each component of working conditions considering its nature and purpose. According to legislative requirement, the government will release a guideline which shows what gap of each component in working conditions is reasonable or not.

These policy initiatives are steps in the right direction to achieve a more inclusive and fairer labour market. However, the weakness is that the legislation focuses only on the differential treatment of regular and non-regular workers. The EPEW concept is intrinsically interlinked to how jobs are defined while considering a reasonable wage level of corresponding jobs. A more comprehensive approach is needed to promote equal pay not only between regular and non-regular workers, but also among regular workers. This includes requiring firms to provide more detailed job descriptions. Currently, job duties of Japanese regular workers are not stipulated by any detailed job description including the range of job duties, expected responsibilities, required skill sets, etc. Thus, employers have wide discretionary powers in terms of personnel management[19] and the wage level of regular workers is typically decided by a worker's vocational competency closely related to tenure, but on weakly related to their job and performance. Moreover, non regular workers are not evaluated by the same standards as regular workers.

Japanese wage setting practice in the private sector could be influenced by governmental initiatives and case law. The Japanese government has started to discuss extending the mandatory retirement age of government officials until the age of 65 from the current age of 60 by 2033. In the process of the extension, it will consider reducing the wage level of older officials beyond the age of 60, consistent with labour practice in the private sector. However, as mentioned previously, this could have an adverse impact on the motivation and productivity of older workers. Given the necessity in Japan of extending working lives further, it is time to change age-management practices. The government could be a role model of personnel management for private firms to develop a new personnel system.

In June 2018, the Supreme Court decided on two ground-breaking cases[20] which were filed by fixed-term employees including re-hired older workers to ask for equal treatment in the working conditions with permanent employees in the same firm based on article 20 of the Labour Contract Act. The court judged differences in the individual working conditions are not unreasonable if balanced treatment or equal treatment are ensured according to details of job duties, possibility of change of duties and job responsibilities. While the High Court approved that differences in working conditions are valid because the labour practice to reduce wage level after mandatory regiment is widespread, the

Supreme Court has not supported this view. The guideline for EPEW that the government will release should help shift Japanese labour practices toward a fairer system.

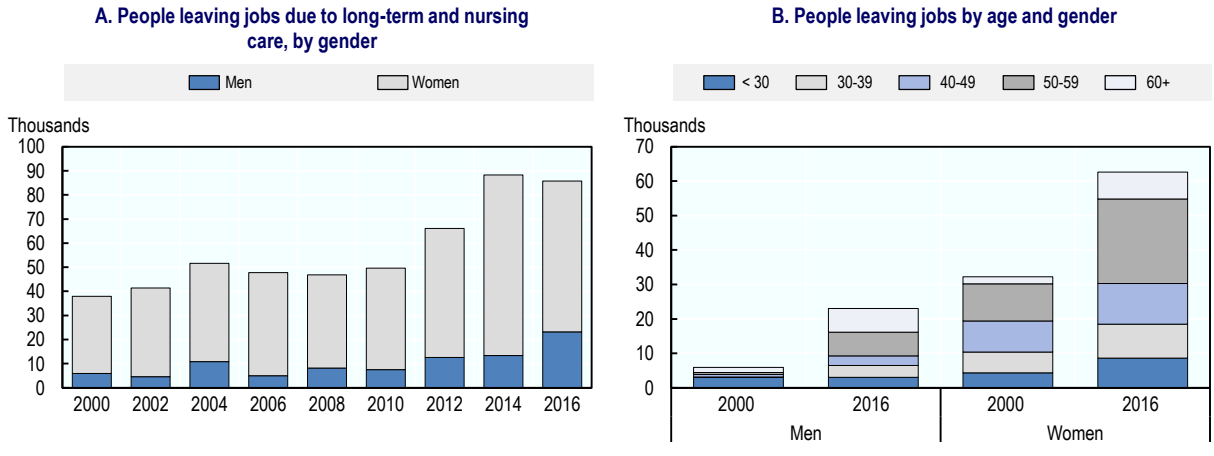
More generally, the importance of non-regular work has increased over time, driven in part by a large gap in the strictness of employment protection legislation with respect to regular and non-regular employment. Continued efforts should be pursued by the Japanese government to reduce this gap and, hence, the incentives of firms to hire workers on non-regular contracts as a way of reducing their labour costs.

Ensuring a better work-life balance

Difficulties in reconciling work and care are holding back labour force participation

A key aspect of job quality is workers in their jobs can find a good balance between work and family responsibilities. This not only affects the well-being of workers but also their decision to continue working or to take up work, especially for women. Recently greater attention has been devoted to managing work and family care responsibilities. The Employment Status Survey reveals that, between 2012 and 2017, about 500 000 workers left jobs due to family nursing care, of which the top reason was "the workplace issue where it is difficult to balance work and family care" (about 60%), followed by "deterioration of physical and mental health" (around 30%) according to the MHLW survey[21]. As the working-age population is decreasing and labour shortages rising, this is becoming an increasingly pressing issue for companies to tackle in order to prevent employees from leaving. Since 2010, there has been a considerable increase in the number of workers quitting their jobs each year because of family care responsibilities, with a considerable share of these workers aged 50 and over (Figure 4.8).

Figure 4.8. Trend of number of workers leaving jobs due to long-term family nursing care



Source: Employment trend survey provided by the Japanese Ministry of Health, Labour and Welfare.

StatLink http://dx.doi.org/10.1787/888933891053

In 2016, the Japanese government announced "Japan's Plan for Dynamic Engagement of All Citizens". One of the targets of this plan is that "No one will be forced to leave their jobs for nursing care". In order to achieve this target, it is proposed to expand care facilities and their personnel along with policies to create a workplace environment where

workers are encouraged to take nursing care leave by making this leave more flexible and the benefits more generous. Whether these policies succeed or not, however, depends heavily on corporate culture as well as the situation of the nursing-care labour market.

In terms of the nursing-care labour market, the government has decided to expand the number of nursing care facilities for the elderly in need of long-term care and increase the number of new caregivers by 500 000 by the beginning of the 2020s. However, according to the MHLW, the job openings to applicants ratio in the nursing care sector is approximately two times as large as the average for all industries, so that this sector already struggles to hire new people as the labour market becomes the tightest in decades. The MHLW has projected that, while there will be a demand for 2 530 000 care workers in 2025, the prospect for the supply of these workers is only 2 152 000. It is noted that the mismatch is mainly caused by lower wages in the sector compared with other industries. In addition, since it is still a young industry, future career paths of workers are unclear so that young graduates are reluctant to enter in the field. Therefore, along with subsidies that motivate companies to improve treatment of care workers, the government is required to improve social perceptions about the attractiveness of working in the care sector.

The revised Child Care and Family Care Leave Act (CCFCLA) 2017 offers flexible nursing care leave options and encourages firms to create a workplace environment where workers can balance nursing care duty and work. It allows workers to take nursing care leave three times during the care period for up to 93 days which was supposed to be taken only once previously. In addition, it became possible to use care leave as a half-day up to five days per year with one family member requiring care or ten days per year with two or more family members. The act requires firms to exempt long-term caregiving workers from overtime work, while previously exemptions were only available for childcare leave purposes. Although such efforts are welcome, the fact that many workers do not yet know of the existence of nursing-care leave entitlements in their workplaces should be noted. Therefore, further efforts should be undertaken by the government to promote the awareness and use of nursing care leave entitlements among companies and workers.

Even if they know about these entitlements, many of the workers are hesitant to use their rights in workplaces. According to the Employment Status Survey 2017, the fraction of workers with nursing families who actually used the system was only 1.2%, which dropped by 2.0 percentage points from the 2012 survey. The government should strongly urge companies to promote a family-friendly environment for workers to balance nursing care and work. Policies that give incentives to workers and employers to encourage the use of nursing care leave systems are important (see Box 4.6 for some international examples). In particular, subsidies for companies in which more workers use the system and companies that encourage worker to telework could be useful tools.

Box 4.6. International experiences on balancing working life and care responsibilities

Belgium: The time-credit system created in the mid-1980s has been revised several times. From April 2017, the entitlement to time credit on the ground of "care" was extended to 51 months (48 months in the past). This covers: caring for a child under the age of eight; providing palliative care; providing assistance or care to a member of the household or the family with a serious illness; caring for a disabled child under the age of 21; and providing assistance or care to a minor child with a serious illness (OECD, 2018[30]).

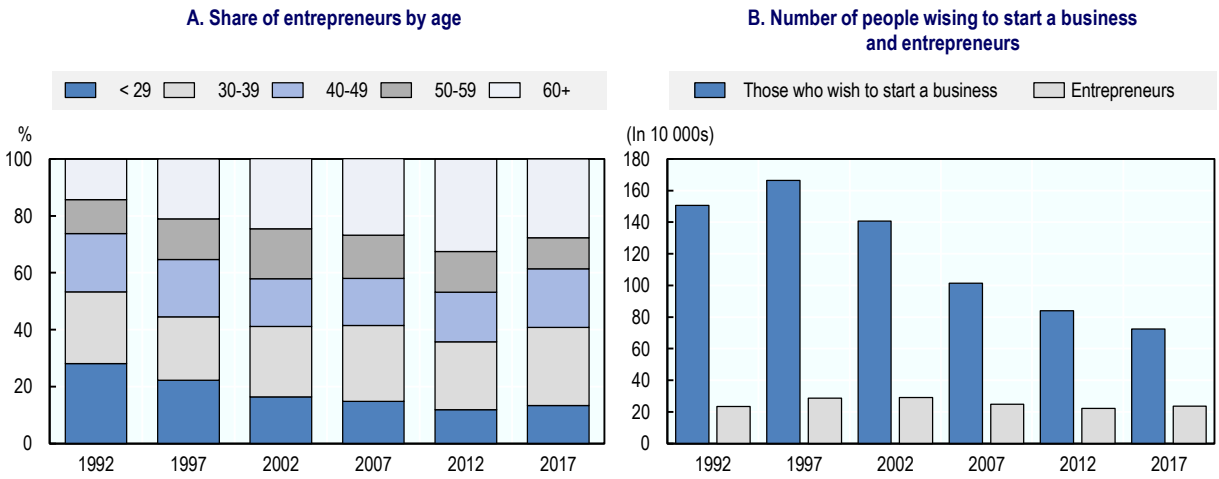
Germany: In 2008, the Home Care Leave Act was passed, easing the reduction of working time and improving the conditions for switching temporarily to part-time work or for taking specific leave when caring for (elderly) parents. The law on better combining care, family and work came into effect on 1 January 2015. It introduced the right to take care leave for a period of up to 24 months (OECD, 2018[20]).

United Kingdom: From 1 April 2015, the Care Act 2014 gave new duties to local authorities in England to assess and support adult carers. To determine whether carers are eligible for support, local authorities must assess the impact of caring on a carer's well-being and consider the carer's ability to achieve certain outcomes. One of the relevant outcomes is "engaging in work, training, education, or volunteering". This means that, where relevant, local authorities are to support adult carers in maintaining or re-entering employment and training. Such support could include, for example, working with them to put a plan in place to ensure that the person they care for is looked after while they are at work (OECD, 2018[21]).

There is much potential for older workers in self-employment

Self-employment is an underutilised but increasingly important pathway for older workers to continue working after the age of 60. According to the Employment Status Survey, those who wish to start a business has declined from 1.67 million in 1997 to 0.73 million people in 2017 (Figure 4.9). Similarly, the number of entrepreneurs who started a new business in the past year also decreased from 287 thousand in 1997 to 236 thousand in 2017. However, by age, the share of entrepreneurs aged 60 or older has risen substantially. Currently, female and older entrepreneurs account for around 30% each of the total. According to the White Paper on Small and Medium enterprises in Japan 2014, women tend to run small enterprises that are rooted in the needs of their lives. On the other hand, the motivation of older entrepreneurs is different. They wish to use their experience and knowledge and contribute to society. The Japan Survey on New Business Activities 2017[22] reveals that 95% of entrepreneurs have worked as employees prior to becoming entrepreneurs, of which 85% were regular workers before starting their business.

Figure 4.9. Share of older entrepreneurs has increased, while persons who wish to start a business has decreased



Note: Entrepreneurs refer to those who started a new business in the past year and who are self-employed.
Source: *Employment Status Survey* provided by the Japanese Ministry of Internal Affairs and Communications.

StatLink http://dx.doi.org/10.1787/888933891072

Promoting self-employment could help older workers remain in employment longer as well as open up greater employment opportunities for women. However, in order to foster greater entrepreneurship, a broad strategy is required that starts early with the teaching of entrepreneurial skills in schools. The government should also facilitate contact with successful entrepreneurs who can act as mentors. It can also help to change social perceptions as many Japanese people do not think that being an entrepreneur is a good career choice.

Improve experience for entrepreneurship

Prior to starting a business, most people already have work experience. However, it would facilitate the transition if workers could combine their main jobs with a side job as an entrepreneur. Currently, there is no law regulating concurrent business or side jobs in Japan. However, most companies set their employment contracts using the contract model released by the Ministry of Health, Labour and Welfare, in which there is one provision for prohibiting concurrent or side jobs. The model 2018 version has deleted that provision in order to promote concurrent or side jobs in companies so that more and more people may experience work variety in the future. However, this will depend on changes in long-working hour practices in Japan since side jobs and concurrent business are carried out outside of core business hours. Changing Japanese labour customs and effective implementation of working hour regulation should be strongly pursued.

Promotion of social business of the elderly

As local communities are ageing, a wide range of social issues is emerging. These challenges require community-based and tailor-made approaches to respond to the complicated and more specific needs in the community which may be difficult for local government on their own to solved. Not only local governments, but also more players

closely connected to communities may be better at providing such services. One possible solution could be social entrepreneurship[23] including non-profitable organisations. The establishment of these social entrepreneurship initiatives should be encouraged and supported drawing on best practice in other countries.

Summary and recommendations

Job quality is an important determinant of well-being for older workers and plays an important role in their decisions to continue working or to return to 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 may be deterring some older people from working longer and preventing some women, especially mothers, from entering employment at younger ages and pursuing longer work careers.

There are a number of areas where more could be done to improve job quality for older workers in Japan and to increase opportunities for them to continue working at an older age. This includes: tackling labour market dualism; 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 is 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.

Box 4.7. Key Recommendations

- *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 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.

Notes

[1] Female and older workers account for around 90% of the growth of non-regular workers in Japan from 2004 to 2014. (MHLW, 2015[31]).

[2] Using the natural experiment of an extra wage hike, the empirical facts suggest that the labour demand side has more influence on employees' working hours. (Kawaguchi, Naito and Yokoyama, 2008[32]; Kuroda, 2017[33]).

[3] For more information, see (JILPT, 2016[34]).

[4] https://www.mhlw.go.jp/file/06-Seisakujouhou-11200000-Roudoukijunkyoku/0000124199_1.pdf.

[5] For example, individuals having innately good resilience and health might prefer hard work and longer working without damaging their health condition in order to increase their earnings and career prospects. In contrast, individuals with more fragile health may choose less onerous working conditions.

[6] There is substantial evidence pointing to the positive relationship between wage, job satisfaction and worker productivity The meta-analysis of (Judge et al., 2001[37])confirmed that there is a positive correlation between job satisfaction and productivity. In addition, (Judge et al., 2010[38]) find there is a causal relationship between wage levels and job satisfaction.

[7] The questionnaire asks people about their perception on if they are satisfied with skill utilisation and human relationship in workplace using a 5-point scale.

[8] https://www.mhlw.go.jp/content/11201000/000357447.pdf

[9] https://www.jtuc-rengo.or.jp/info/chousa/data/20170707.pdf

[10] The discretionary labour system enables employers to pay employees according to a fixed number of hours that they determine in advance as opposed to the actual number of hours worked, while employers have to give enough discretion to workers to complete their task.

[11] https://www.nippon.com/en/currents/d00088/

[12] Ishikawa (2016[35]) presents recent usage of big data in the medical field in Japan.

[13] http://www.tyoelama2020.fi/files/104/Strategy_2020.pdf

[14] www.fit2work.at (accessed 22 January 2018).

[15] https://healthy-workplaces.eu/en/healthy-workplaces-all-ages-e-guide.

[16] For more information, see: www.mentalhealthcommission.ca/English/issues/workplace/national-standard.

[17.] See http://www.ti.ee/est/meedia-trukised-statistika/teavitustegevus/kampaaniad/ (available in Estonian only) for further information.

[18]. www.arbeitsinspektion.gv.at (accessed 22 January 2018).

[19.]https://www.nippon.com/en/currents/d00088/, (Tsuru, 2017[36]) discusses more comprehensive issues generated from Japanese employment system from a comparative institutional perspective.

[20] http://www.courts.go.jp/app/files/hanrei_jp/785/087785_hanrei.pdf.

[21] https://www.mhlw.go.jp/bunya/koyoukintou/dl/h24_itakuchousa05.pdf.

[22] https://www.jfc.go.jp/n/findings/pdf/topics_171221_1.pdf.

[23] In European countries, discussions on social enterprise hve already been progressing in response to community interest. The European Commission adopted in 2011 the Social Business Initiative (SBI), which aims to support the development of social enterprises by improving their access to funding, raising their visibility and fostering a friendlier legal environment (OECD/EU, 2017[39]).

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Ageing and Employment Policies

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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 above for every 100 persons aged 20 to 64. This ratio is projected to rise to 79 per hundred in 2050. The rapid population ageing in Japan is a major challenge for achieving further increases in living standards and ensuring the financial sustainability of public social expenditure. However, with the right policies in place, there is an opportunity to cope with this challenge by extending working lives and making better use of older workers' knowledge and skills. This report investigates policy issues and discusses actions to retain and incentivise the elderly to work more by further reforming retirement policies and seniority-wages, investing in skills to improve productivity and keeping up with labour market changes through training policy, and ensuring good working conditions for better health with tackling long-hours working culture.

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