

# Why Does the Older Population in Japan Work So Much?

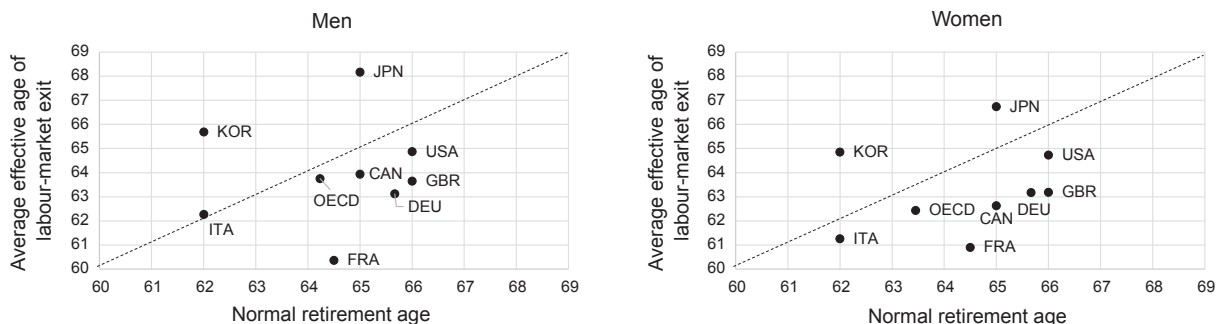
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## I. Introduction—Do the Japanese like to work?

Morale, or motivation to work, is high among older workers in Japan. The JILPT's 2019 "Survey on Employment and Living of Persons in Their Sixties" (JILPT 2020) asks men and women in their sixties about their ideal retirement age and their actual retirement age. "Want to work as long as possible, regardless of age" (32.1%) is the most common response, followed by those who want to work "until 70 or older" (23.6%) and those who indicate their ideal age between 65 and 69 (13.8% in total). Pensions at a Glance (OECD 2021) reports the high retirement age of workers in Japan compared to other industrial countries. Figure 1 shows the relationship between the normal (or official) retirement age and the average age when people actually exit the labor market (average effective retirement age) for Japan, Korea, the US, Canada, the

UK, Germany, France, Italy, and the OECD average, by gender. Only Japan and Korea find the average effective retirement age higher than the normal retirement ages for both men and women. This means that in these two countries, the average age at which people actually retire is higher than the age at which they can receive full pension benefits through the official retirement pension. In particular, Japan has the highest average effective retirement age among all countries, exceeding the OECD average of normal retirement age by 3.2 years for men and 1.7 years for women.

So, do Japanese people simply like to work? Indeed, not a few of them work voluntarily. However, having no choice but to work for a living is also a significant motivator. In the aforementioned JILPT survey, when asked their reasons for working in a multiple response format, 76.4% cited "economic reasons," 33.4% cited "purpose in life and social participation," and 22.6% cited "having time on their



Source: OECD, *Pensions at a Glance 2021*.  
 Note: Effective retirement age shown is for five year period, 2013-18. The normal retirement age is shown for individuals retiring in 2018 and assuming labor market entry at age 22.

Figure 1. Normal retirement ages and average effective age of labor-market exit of major countries

hands.” Furthermore, over 80% of those who cited “economic reasons” worked not to improve their standards of living, but to maintain current standards of living for themselves and their families. The following sections outline structural and institutional factors that define the high employment rate and motivation for working among older adults in Japan.

## II. The ageing of society and the rising employment rate of older workers

Population ageing in Japan has progressed more rapidly than in any other country. The ratio of older persons (those aged 65 or over as a percentage of the total population) rose from 9.1% in 1980 to 17.4% in 2000 and 28.7% in 2020. Meanwhile, the ratio of Japan’s working-age population (aged 15–64) to the older population (65 and over) was 7.4 persons of working age for every one older person in 1980, but this figure decreased to 2.1 by 2020.

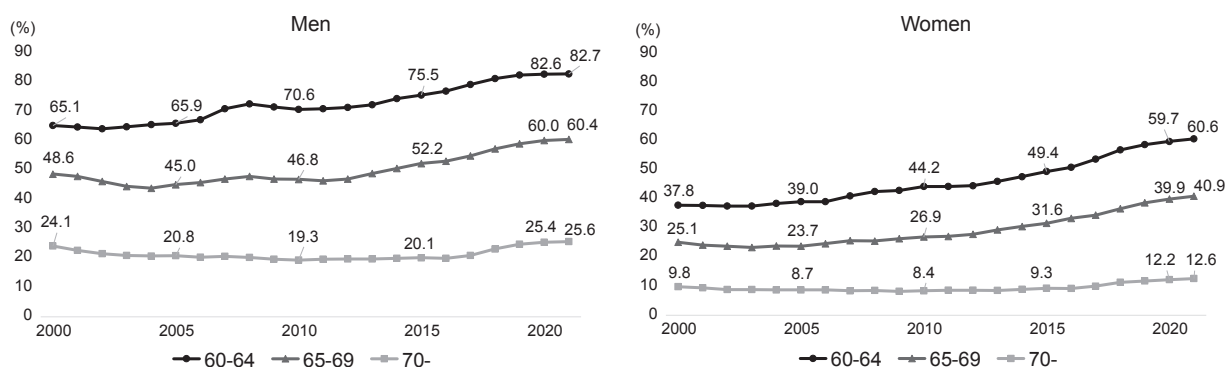
As the demographic structure has changed, the employment rate of older workers in Japan has increased. Not only are most men and women in their early 60s staying in labor force today, but so are 60% of men and 40% of women in their late 60s. Figure 2 shows the employment rate by gender for the age groups of 60–64, 65–69, and 70 and over since 2000. The male employment rate rose from 65.1% to 82.7% for those aged 60–64, and from 48.6% to 60.4% for those aged 65–69 between 2000 and 2021, while the employment rate for those aged 70 and over did not change much between 2000 (24.1%) and 2021

(25.6%). Meanwhile, the female employment rate also rose between 2000 and 2021, from 37.8% to 60.6% for those aged 60–64, from 25.1% to 40.9% for those aged 65–69, and from 9.8% to 12.6% for those aged 70 and over.

The ageing of society is expected to continue in the future. According to the Cabinet Office’s *Annual Report on the Ageing Society FY2021*, the ratio of older persons is projected to rise to 31.2% in 2030, 35.3% in 2040, and 37.7% in 2050. In particular, it is clear that social safety net expenses such as pensions and medical costs will further increase from the late 2030s onward, when the ageing of the second baby-boom generation (those in their mid- to late-40s in 2022) will bring a large segment of the population into old age. It is also projected that fertility rates would continue to fall, with the working-age population expected to decline from 74.49 million in 2020 to 68.75 million in 2030, and 59.78 million in 2040.

## III. Changes in the mandatory retirement system and age of eligibility for pension benefits

Responses to the rapid ageing of society is an urgent and critical issue, and systems and policies related to employment and social security for the older population have frequently been reformed. The mandatory retirement age system greatly affects the employment of the older persons. Under Japan’s traditional employment practices, enterprises pay



Source: Statistics Bureau, Ministry of Internal Affairs and Communications, *Labour Force Survey*.

Figure 2. Employment rate of older workers, by gender (2000–2021)

wages less than productivity to those below a certain age, and wages higher than productivity to those older workers, in order to prevent high employee turnover and fraud (Lazear 1979). However, paying wages higher than productivity indefinitely could lead enterprises into a difficult financial situation; so in order for the concept to be valid, there should be a mandatory retirement age system, which generally defines the retirement rate around age 60.

Many Japanese enterprises introduced a mandatory retirement system in the late 1940s, generally setting the mandatory retirement age at 55, as the age of eligibility for pension benefits at that time was also 55. The mandatory retirement age system met the needs of management to terminate the employment of “older persons” in order to curb the over-expansion of employment; at the same time, it met the needs of workers to be guaranteed employment until they reached the mandatory retirement age. The system became widespread, based on consensus between labor and management.

Subsequently, between 1954 and 1974, the age of eligibility for pension benefits was progressively raised to 60. As a result, workers sought extension of the mandatory retirement age, and by the early 1970s, employment measures for older workers were viewed as the most crucial policy issue. Consequently, the retirement age was gradually extended during the 1970s through the early 1980s, and the Act on Stabilization of Employment of Elderly Persons enacted in 1986 stipulated that employers imposing a mandatory retirement age should endeavor to set that age at no lower than 60. The Act was revised in 1994 to make this stipulation mandatory, and since April 1998, no enterprise has been allowed to set a retirement age lower than 60. In 1999, 97.1% of enterprises had a uniform retirement age, which was age 60 at 91.2% of enterprises, and 65 or higher at 6.2% of enterprises according to the Ministry of Health, Labour and Welfare (MHLW) “Survey on Employment Management”<sup>1</sup>.

Thus the gap between mandatory retirement age and the age of eligibility for pension payments was resolved by 1998, but by that time it had already been decided to gradually raise the age eligibility for

employee’s pension and mutual-aid pension benefits to 65 between 2001 and 2025.<sup>2</sup> So, the question arose once more of how to fill the gap between the end of employment and the start of pension payments for those in their early 60s.

#### **IV. Legislative amendments to ensure employment for older adults**

To fill the new gap, the government encouraged employers to ensure employment opportunities for older adults by amending the Act on Stabilization of Employment of Elderly Persons. The Act was amended in 1990 to impose the duty to endeavor to take measures for job security until the age of 65, amended again in 2004 to make these measures mandatory, and again in 2012 to make such measures, in principle, available to all of those who wish to utilize them.

The law covers employees who were born in April 1946 or later, and enterprises are required to take one of the following measures to ensure employment of workers up to the age specified by law:<sup>3</sup> (i) raise the mandatory retirement age, (ii) introduce a continued-employment program, or (iii) abolish the mandatory retirement age system. In practice, many enterprises have opted for (ii) a continued-employment program, with 72.1% of enterprises having chosen this option as of June 2006 (MHLW’s tabulation results of 2006 Employment Status of Older Workers). The main reason for this is that there is no specific provision for employment conditions in the case of continued-employment: if the mandatory retirement age is raised, the contract under which a worker is hired as a regular employee must be extended until that later mandatory retirement age. On the other hand, with a continued-employment program it is easier to terminate the contracts of regular employees and re-hire them as non-regular employees, and to change wages and job duties, than it is if the retirement age is raised: thus, the cost to enterprises is considerably reduced. In fact, nearly half of all enterprises continue to employ workers after reducing their wages by 40% or more after the age of 60 (Yamada 2009).

Until April 2013, even if a continued-employment

program was introduced, it was possible for employers to discontinue the employment of older workers who did not meet criteria for the program determined in advance through labor-management negotiations. In fact, as of June 2006 only 39.1% of all enterprises offered continued-employment to all applicants, while the rest offered it only to those who met certain criteria.

These legislative amendments promoted employment of older adults. According to Kondo and Shigeoka (2017), who examined the effects of the 2004 amendments using individual data from the *Labour Force Survey* of the Statistics Bureau of the Ministry of Internal Affairs and Communications, the employment rate of 60- and 61-year-olds was 2.4 to 3.2% higher for the cohort born in 1946, which was affected by the amendment, than for the cohort born in 1945 which was unaffected. In particular, the amendment caused the number of employees continuing to work after age 60 to increase at large enterprises, where most employees retire at age 60 due to uniform retirement age systems. On the other hand, the rate of enterprises having chosen continued-employment programs did not rise at small and medium-sized enterprises, as a large percentage of these employees were already continuing to work after the age of 60.

Also, Yamada (2017) defines the impact of the 2012 legislative amendment mandating employment for all applicants up to age 65, using data from the MHLW “Longitudinal Survey of Middle-aged and Older Persons” from 2005 to 2014. The results showed that the employment rate for men born in FY1953 (between April 1953 and March 1954), who were subject to the 2012 legislative amendment, increased by 7% for men who were regularly employed at age 59, as compared to men born in FY1952 who were not affected.<sup>4</sup>

## **V. Occupational diversification and stratification of older workers**

As the employment rate has risen due to the legislative amendment, the careers of workers in their early 60s have diversified: some remain full-time employees after the mandatory retirement age

of 60 at the same enterprise, or at an affiliated enterprise under the system of *shukko* (transfer of a worker to another company, while the employment relationship with the original company is maintained); some remain employed at the same enterprise by converting their employment status from regular to non-regular; and some changed employers after the mandatory retirement age of 60. Meanwhile, some continued to work as full-time employees of enterprises which did not have a mandatory retirement age, or which had a mandatory retirement age of 61 or over, while others already worked as non-regular employees before reaching at age 60. On the whole, careers among those in their early 60s can be divided into careers at the core of enterprises, and peripheral or external careers. This means that the diversification of careers in old age is accompanied by stratification.

Career changes triggered by mandatory retirement, and careers from age 60 onward, are defined by pre-retirement socioeconomic status. This situation reflects the idea (known as the cumulative advantage/disadvantage hypothesis) that old age is a life stage in which the economic and social advantages and disadvantages accumulated up to that point are revealed, and the disparities that already existed prior to old age tend to more pronounced. In the Japanese labor market, both the size of enterprise at which workers were employed prior to mandatory retirement and also the type of employment are the major determinants of career disparities in old age. Compared to small- and medium-sized enterprises, large enterprises have better programs for continuing employment as regular employees and more systemic networks, enabling *shukko* to affiliated companies and so forth. This means that many opportunities to work exist under relatively good conditions even after the age of 60. In addition, it is primarily regular employees who are able to enter old age in relatively good working conditions maintained at the same enterprises, while non-regular workers on the periphery of the labor market are in a socially excluded position to begin with.

This is reflected in the gender disparity seen in careers of older workers. Moriyama (2022) analyzed Japan’s leading stratified survey, the Social

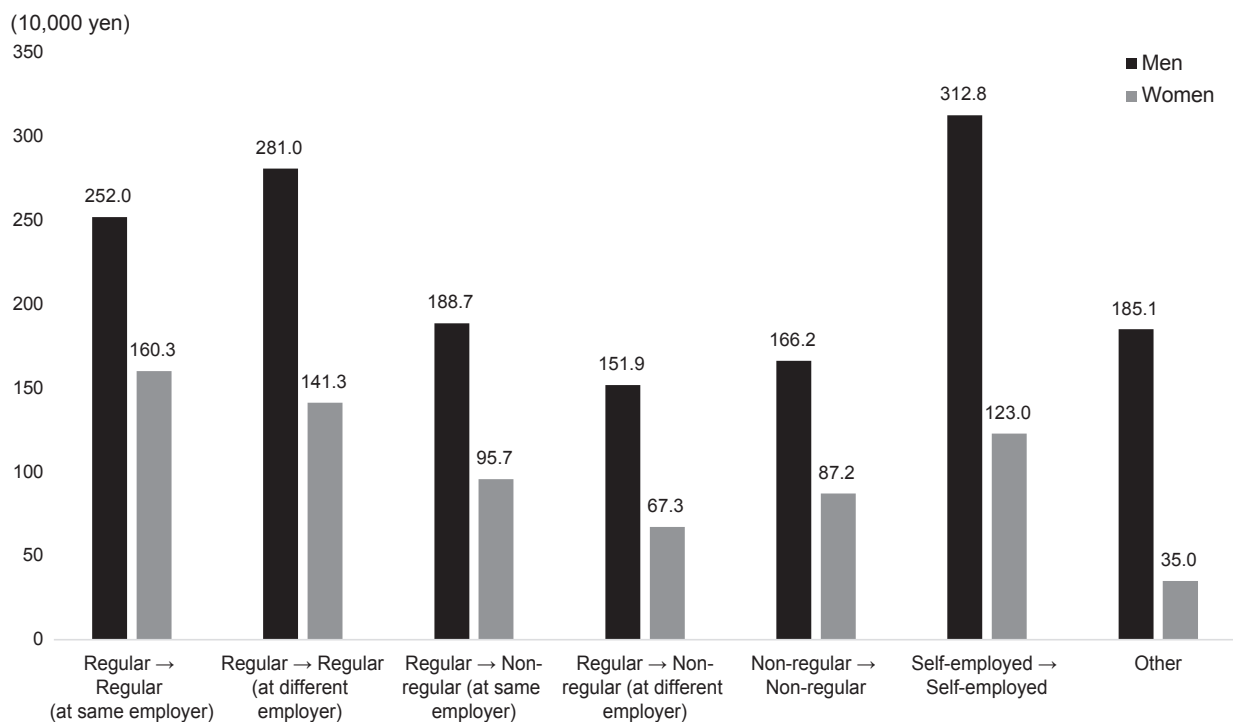
Stratification and Social Mobility of 2015, the employment rate at age 59, just before the old age, was 94.0% for men and 62.7% for women, with less than 30% of all women working as regular employees. Moreover, a comparison of estimates of earned income for men and women aged 61-80, disaggregated by employer and employment status around age 60, reveals gender disparities in the estimated value of earnings<sup>5</sup> for all patterns of change (Figure 3). The estimated average annual income of the group that transitioned from regular employment (at age 59) to other enterprises where they worked as regular employees (at age 61) is about 1.4 million yen higher for men than for women. In the group of workers who continue to work as regular employees in the same enterprises, men's average annual income is about 900,000 yen higher than that of women. Furthermore, for the group that switched from regular to non-regular employment within the same enterprise, men's annual earned income was about 900,000 yen higher than that of women.

These results suggest that there is a large gender disparities in economic and social accumulation

before reaching the age of 60, and that the disparity is maintained or widened because it determines career transitions around the age of 60 and beyond. Moreover, the recent legislative amendments may increase this gender disparity by encouraging preferential treatment of older workers who remain employees in the core of the organization.

## VI. Challenges ahead for employment of older adults

This article has explained the high employment rate and motivation for working at an older age in Japan from both structural and systemic perspectives. With the raising of the pensionable age and the amendment of the Act on Stabilization of Employment of Elderly Persons, employment and working until age 65 are now socially entrenched, and employment after age 65 is also advancing rapidly. In addition, the amended Act of 2020, which came into effect in April 2021,<sup>6</sup> stipulates that employers have a duty to endeavor to provide expanded employment opportunities for older workers up to age 70. This change will also further increase the employment



Source: Moriyama (2022).

Figure 3. Estimated earned income by gender and change in employment status around age 60



rate of older adults in Japan and push up the age of exit from the labor market.

Finally, let us enumerate some of the challenges that Japanese society is likely to face in the future. First, there is the issue of enterprises' systems to maintain employment for older persons. Japan's employment policy is based on maintaining employment, especially of regular employees, in the internal labor market (i.e. within enterprises), and this is likely to be the main focus with regard to the employment of older workers in the future. However, maintaining employment is certain to entail problems related to wages and the allocation of human resources. In the past, when employment continued after mandatory retirement, many enterprises reduce wages by an average of 20–30% in line with reductions in job duties and responsibilities, but this can also lead to a decline in worker motivation. Thus, there will be increasing need to establish and implement seamless systems for worker evaluation and treatment instead of having different systems before and after retirement. In addition, it will be necessary to maintain employment and wages not only for older workers but also for young and middle-aged workers, and to provide jobs and roles with consideration for the safety and health of older adults. Therefore, enterprises are faced with the difficult task of maintaining the employment of older adults while considering the age structure of the organization as a whole, the performances of each department.

Another challenge is that of developing an external labor market so as to reduce unemployment and poverty among older workers and enable smooth labor mobility. Old age is a period when occupational mobility occurs with similar frequency as it does among younger people. It is also an age group with a relatively high risk of poverty. Until now, the problem of unemployment among the older persons has not received as much attention as that of unemployment among the young, because the hiatus between retirement and eligibility for pension benefits is short, and many people have sufficient pension funds, savings, and assets to live on. In the future, however, people who were forced to work in unstable employment forms during their youth and prime of

life, and thus were unable to accumulate sufficient savings by the time they reached old age, will enter old age, and the problem of unemployment of older persons will become more apparent. There is a need for social systems and policies that enable people who must continue to work for economic reasons to find work easily, regardless of their age.

1. MHLW's "Survey on Employment Management" is conducted nationwide on private-sector enterprises with 30 or more regular employees at their headquarters.
2. A system called "specially provided" employees' old-age pension (special old-age pension) was established to smoothly raise the starting age for receiving the employee's old-age pension benefits from 60 to 65 years old. With this phased measure, the increase in the starting age for the flat-rate component of the special old-age pension was completed by FY2013 for men and by FY2018 for women, and the increase for the earnings-related component will be completed by FY2025 for men and by FY2030 for women.
3. The "age specified by law" is 63 for those born in 1946, and rises in stages to 65 for those born in April 1949 and later.
4. This increase in the employment rate includes the effect of the 2012 amendment of the Act on Stabilization of Employment of Elderly Persons as well as that of the increase in the starting age for the special old-age pension (earnings-related component of the employee's old-age pension) for men from 60 to 61 in 2013. However, its impact is marginal compared to the effect of the 2012 amendment.
5. Estimates were calculated for annual income earned through employment, statistically controlling for age, pension amount, marital status, and whether or not the spouse was employed.
6. This legislative amendment obliges enterprises to endeavor to ensure employment opportunities for older adults up to age 70 by taking one of the following measures: (i) abolishing the mandatory retirement age, (ii) extending the mandatory retirement age to 70, (iii) introducing a continued-employment program (including continued-employment at subsidiaries and affiliates), (iv) enabling re-employment at other enterprises (other than subsidiaries and affiliates), (v) funding freelance contracts with individuals, (vi) supporting individual entrepreneurship, or (vii) funding for individuals participating activities committing social responsibility.

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