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JAPAN FACT SHEET

SOCIAL SECURITY SYSTEM

An aging society and its impact on social security

Health examination at a hospital.
(Photo courtesy of AFLO)

Introduction

Social security programs in Japan are designed to guarantee a minimum standard of living and to protect citizens from certain types of social and economic risk. The social security system consists of four major components: public assistance, social insurance, social welfare services, and public health maintenance. With the average age of the Japanese population rising rapidly because of a falling birth rate and increasing life spans, it is inevitable that the total population will soon begin to fall. In this environment, the issues of how to pay for and restrain the growing pension, medical care, and nursing care burden have become critical ones as society seeks to create a humane and sustainable social security system.

Development of a Modern Social Security System

At the end of the 1950s, the establishment of two laws—the National Health Insurance Law and the National Pension Law—made self-employed persons, those engaged in agriculture, and others with no previous access to social insurance policies eligible for national pensions and national health insurance. Beginning in April 1961, a universal health insurance system and

A pension book

pensions for all Japanese citizens were put into effect. This social welfare regime was supported by government financial resources, which were adequate under the prevailing conditions of rapid economic growth. Steadily, it developed as the basic system underpinning the people's welfare. In 1973, a time some people called the "First Year of the Welfare Era," a revision of the Welfare Law for the Aged eliminated healthcare fees for older citizens, while a revision of national health insurance regulations boosted the percentage of national coverage for family medical expenses. Revised national pension regulations raised pension levels and introduced a sliding scale (reflecting changes in commodity prices) that benefited, in particular, the neediest recipients.

With the oil crises of 1973 and 1979, Japan entered an era of welfare constraints. In 1983, the Health and Medical Service Law for the Aged was enacted. This law mandated that the cost of geriatric medical treatment should be covered not only by National Health Insurance but by employee, cooperative, and other health insurance plans in order to reduce the national treasury's outlays for the National Health Insurance Plan. Moreover, senior citizens themselves were to pay a fixed price for medical treatment. In April 1986, a new pension system was inaugurated. This pension reform aimed, above all, to establish a system that could be maintained under the conditions of Japan's aging society.

Japan's social security benefits came to ¥114.8 trillion in fiscal 2015, or ¥903,000 per capita, an amount that has risen in pace with the rapid aging of the population. Pensions accounted for 47.8% of the total, medical spending for 32.8%, and welfare and other expenses for 19.3%. Social security benefits for the elderly came to ¥75.1 trillion, or about 67.5% of the total.

In terms of government spending, social security related outlays made up ¥31.5 trillion of the fiscal 2015 budget and 32.7% of all expenditures in the general account budget. The proportion, however, rises to 54.9%when government bond-related expenses and local government subsidies are excluded. The ratio, which was 26.7% in fiscal 1980, has exceeded 40% since fiscal 1999, reflecting the rapid increase in the number of elderly people.

Concerns about the graying of the population first surfaced in 1995, when the ratio of elderly people surpassed 14%. Around the same time, the number of children also began declining conspicuously. In 2005 the total fertility rate hit a record low of 1.26. Since then the rate has risen slightly but remains low. The upshot of this trend will be a marked decline in the ratio of people of productive ages, from 15 years to 64 years of age, to elderly person 65 years of age or older, from 4.4 in 1995 to a projected 2.1 in 2025.

Pension System

Given the rapid aging of society and the fact that there will soon be a downward population trend due to the dropping birth rate, social security systems, including pensions, need to be reexamined. As already mentioned, in 1961 a system was put into effect whereby all Japanese citizens could receive pensions. These pensions were of two types: the "national pension" (kokumin nenkin) for self-employed persons and "employees' pensions" (kosei nenkin) for salaried persons.

Since 1986 there has been a two-tier pension system in place. The first-tier is the "National Pension" which is a common basic pension for all citizens, supported by all citizens. The second-tier was made up respectively of a "employees' pension" to which private employees subscribe and "mutual aid pensions" to which civil servants subscribe. Since October 1, 2015 the pension system for employees has been unified further, integrating the "mutual aid pensions" for civil servants into the "employees' pension".

Consequently, at present the first-tier of the two-tier system is the "National Pension" under which, generally, those aged 20-60 years of age contribute "national pension insurance premiums" and pensions are drawn from age 65 (as of October 1, 2015 the population of those aged 65 and over was 33,920,000, accounting for 26.7% of Japan's total population.).

Under the National Pension, insured beneficiaries are divided into three categories; namely, Category 1, Category 2 and Category 3. Category 1 are the self-employed and students who are obliged to pay their own insurance premiums. Category 2 are private employees or civil servants enrolled in employees' pensions; and Category 3 are spouses (aged between 20 and 59) of Category 2 beneficiaries who are dependent on the income of the Category 2 beneficiaries for their livelihood.

The most serious effect of the trend in Japan toward having fewer children is a decrease in the number of persons supporting the burden of social security expenditures. Related to this are the inequalities in taxes and social insurance contributions. For example, strong opinions have been expressed about burden inequalities between, on the one hand, "Category 3 insured persons" (i.e., full-time housewives) and, on the other hand, income-earning single and married women. The increase in the number of people who either do not enroll in the national pension at all or who do not make the specified monthly payments is also a major problem.

From the mid-1990s onward the government has been implementing structural reforms to the social security system as a whole in order to address issues related to the increase in social security benefit payments, the stagnation of the Japanese economy, the worsening of government finances, and the diversification of social security program needs. In order to improve the financial viability of the public pension system, in March 2000 the government passed a package of pension reform bills which reduce benefit levels while avoiding adding to the contribution burden of the working population. Beginning in April 2000, employees' pension benefits for new recipients were cut by 5%, and the wage-slide system was frozen, with adjustments being made only based on consumer price index changes. In addition, the age at which employees' pension benefits are received is being raised from 60 to 65. It already rose to 61 in 2013 for men and in 2018 for women, followed by subsequent one-year increases made every three years. The final level of age 65 will be reached in 2025 for men and 2030 for women. Pension system reform measures passed in 2004 raised the pension contribution amounts for both the national pension and employee's pensions, and specified the raising of the ratio of the national pension financing burden borne by the national treasury from one-third to one-half by 2009.

The Ministry of Health, Labour and Welfare has released a "balance sheet" showing estimated pension revenue and expenditures through the year 2100. These estimates have projected that a large revenue shortfall will develop. This being the case, if Japan's birthrate continues to drop as expected, the government could be hard pressed to maintain the currently promised pension system benefit levels.

Introduction of a Long-Term Care Insurance System

As the average age of the population increases, the number of elderly requiring long-term care is growing rapidly. At the same time the percentage of the elderly living with younger family members, while still high compared to many other countries, is falling, and the average age of family caregivers is increasing. As of 2016 approximately 6.3 million people had been officially recognized as requiring long-term care.

In an attempt to address the care needs of such people, in 1997 the Diet passed the Long-Term Care Insurance Law, which led to the creation of a nursing care insurance system for the elderly in 2000. This system collects obligatory insurance contributions from a broad sector of the population (all persons aged 40 or older) and provides such services as home visits by home helpers, visits to care centers, or long-term stays in nursing homes for older persons suffering from senile dementia or confined to bed for health reasons. In each individual case, the need for such services has to be certified by city, town, and village offices in charge of administering the nursing care insurance system. Insurance contributions from persons aged 65 and over (“Type 1 insured persons”) are collected by the local administrations in the form of deductions from these persons’ pensions, while contributions from “Type 2 insured persons” between the ages of 40 and 64 are collected together with health insurance contributions as a lump sum. Beneficiaries of the system must be at least 40 years old and must pay, in addition to the regular insurance contributions, 10% of the cost of services received. The financing for Japan’s nursing care insurance system comes 25% from the national government, 12.5% each from prefectural and local governments, and 50% from insurance contributions.

A 2005 revision to the Long-Term Care Insurance Law added an emphasis on prevention aimed at helping those with relatively mild problems to maintain and improve their conditions, and thereby avoid deteriorating to the point where extensive care is necessary. This preventive care management is handled by community-based comprehensive support centers.