

Key findings

- Japan has the highest old-age to working-age ratio in the OECD – there is more than one person aged 65 and over for every two persons of working age – and Japan will continue to be the oldest OECD country based on this indicator.
- Over the last two years, there were no major reforms in Japan, but previously decided measures (further application of sustainability factor and expanding the coverage of earning-related schemes) were implemented.
- The relative poverty rate of older people aged over 65 years is 19.6% against 13.5% on average in the OECD.
- The future net replacement rate from mandatory schemes for a full-career average-wage worker is 37%, lower than the OECD average of 59%. Contributing to the voluntary components for the whole career would raise the replacement rate to 62% in Japan, but significantly less when contributing from age 45.
- In Japan, the self-employed contribute less to old-age pensions than employees as they are not allowed to join mandatory earnings-related schemes, and receive lower pension benefits. The theoretical pension of the self-employed is only 33 % of that of employees, the second lowest ratio in the OECD.
- Japan has both stringent minimum earnings and working-time requirements for pension entitlement, while more than half of OECD countries have no requirements.

Overview – Replacement rates are low, especially for the self-employed

Japan has the highest life expectancy within the OECD and will continue to age rapidly. Life expectancy for women at age 65 is especially high at 24.7 years in 2015-2020 compared to 21.3 years for the OECD on average. In combination with persistently low fertility rates, this has led to the highest old-age to working-age ratio, after a steep increase from the 1990s. This ratio is projected to exceed 80 in 2050, up from slightly more than 50 in 2020 and 20 in 1990. Rapid ageing of the Japanese society in combination with high levels of general government debt puts pressure on public spending.

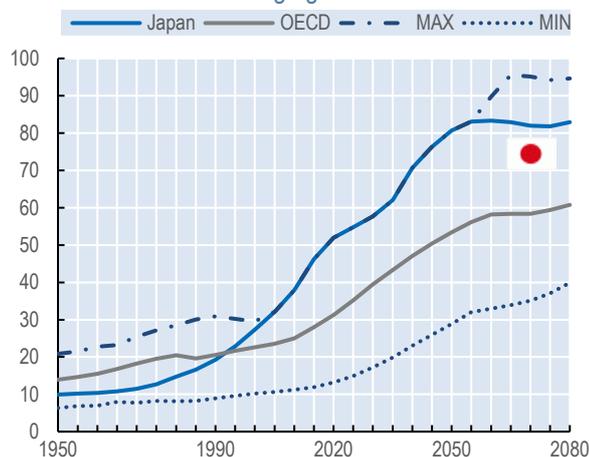
Japan introduced a sustainability factor (macroeconomic indexation) in its PAYGO DB system in 2004, before Finland and Spain. It has been applied only partially, and given population ageing public pension spending increased from 8.1% of GDP in 2005 to 9.4% in 2015. In Japan, the sustainability factor is the sum

of two components: a life-expectancy index and the average change in the number of contributors over the past 3 years. However, this adjustment mechanism is not applied at times of negative inflation. Hence, a catch-up system was introduced in 2018, which carries over downward benefit revisions in years of negative inflation to later years. In 2019, as both prices and wages increased, the macroeconomic indexation was applied, and in addition the unrealised benefit reduction in the previous year was reflected through the carryover mechanism.

While pursuing the financial sustainability of the pension system, securing adequate income of older people is another serious challenge for Japan. The income poverty rate – the percentage of people with incomes lower than 50% of the median household disposable income – of people aged over 65 years is high at 19.6% compared to an OECD average of 13.5%. Old-age safety-net benefit amounts to 18.4% of the gross wage in Japan, against an OECD average of 20.4%, with more than 30% in Canada, Denmark, New Zealand and Norway.

Japan has the highest old age to working-age ratio

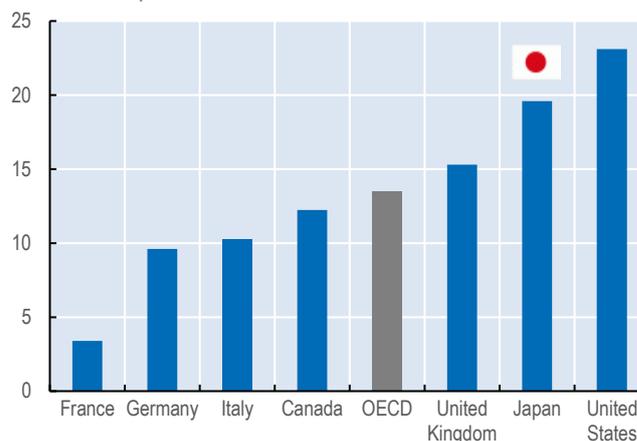
Number of persons aged 65 and over for 100 persons of working age 20-64



Source: [Table 6.2].

Relative poverty rate of people aged over 65 years is high

Percentage with income less than 50% of the median equivalised household disposable income



Source: [Table 7.2].

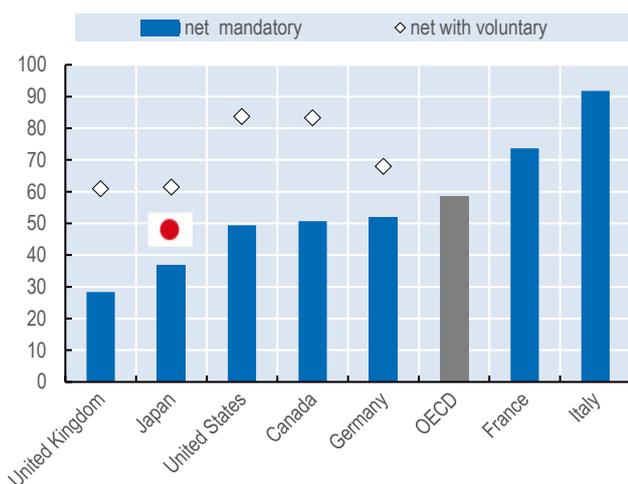
Future old-age income prospects from earnings-related schemes are also weak. Japan has the second lowest accrual rate following Korea among OECD countries with defined benefit schemes. The net replacement rate from mandatory schemes for a full-career average-wage worker entering now in the labour market is 37%, much lower than the OECD average of 59%. Assuming voluntary contributions are made throughout the whole career, the replacement rate would increase to 62% in Japan, but significantly less if contributions are made from age 45 only.

Moreover, pension prospects for some categories of workers are even less favourable. The self-employed contribute less to old-age pensions than employees and receive lower pension benefits when they retire. This is because the self-employed pay contributions to basic pensions only and are not allowed to contribute to the earnings-related pension schemes which are obligatory for employees. On average in the OECD, self-employed workers will receive an old-age pension equal to 79% of that of an employee with a similar career and income. In Japan, the self-employed would only receive 33% of an employee's pension. However, self-employed workers can join voluntary occupational schemes similarly to dependent workers.

In addition to benefit levels, the coverage of the pension system is also important. Not all dependent workers are covered by earnings-related schemes. Japan is one of a few countries having both minimum-earnings and working-time requirements for pension entitlements, while more than half of OECD countries have no such requirements. To be covered by the earnings-related scheme someone has to work at least 20 hours per week and earn JPY 88000 (i.e. 20% of the average wage) or more per month. Despite the gradual expansion of coverage of the mandatory earnings-related schemes, decided in 2012 and 2016, and currently being implemented, there is more room to expand the coverage of earnings-related pensions.

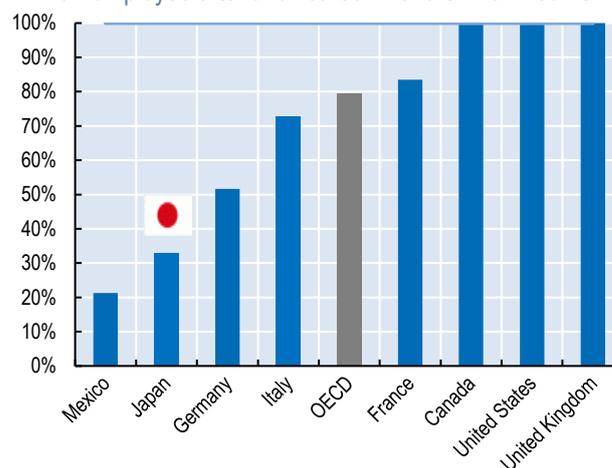
Japan continues to achieve high employment rates among older workers. In Japan, 47% of the 65-69 year olds were employed in 2018, compared to 22% for the OECD on average. This is reflected in a high average effective age of labour market exit for men of 71 and for women of 69 while it stood at 65.4 and 63.5 respectively across OECD countries in 2018. The normal retirement age in the OECD is projected to rise from 64 years in 2018 to 66 years by about 2060, in part because of retirement age to life expectancy links, while the normal retirement age will remain at 65 in Japan.

Net future pension replacement rates
full career from age 22 at the average wage



Source: [Table 5.6].

Pensions of the self-employed will be very low
Theoretical pension of a self-employed worker relative to an employee after a full career with a similar income



Source: [Figure 2.13].