



## **AGEING SOCIETY in JAPAN – PART I**

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## **EXECUTIVE SUMMARY**

Japan's economic power, advanced medicinal technology and healthy diet have enabled its people to have the longest life expectancy in the world – by 2015 one in four Japanese will be 65 or older. However, on the backdrop of the falling birthrate, the overall population is shrinking and the longevity is causing serious structural problems in a country that is already ageing at a faster pace than any other developed country<sup>1</sup>.

Over the past several years, the Government has set the ageing-society as one of the biggest issues to tackle, and introduced various policies and legal reforms. In 2000, it also launched the Long-Term Care Insurance (LTCI) scheme, which aims to share the nursing-care of the elderly across the society and reduce the burden on families.

Still, problems remain firm: the shrinking working-age population and swelling social-welfare expenses are squeezing the Government's finances, and people are increasingly worrying about their future on the gloomy outlook of social-welfare and employment situations. Critics say the LTCI scheme is causing adverse effects for the elderly amid a rapid increase in the number of care recipients. The Government is scrambling to improve the functions of the insurance and other schemes, but there is still a long way to go to achieve its ultimate goal – a sustainable society where people can live their entire lives with a sense of security.

This report discusses problems and future prospects of Japan's strategies to deal with the ageing society, providing an overall picture of the changing social structure in the country.

## **1. OVERVIEW – FACTS & FIGURES**

### **1.1. Population Trend**

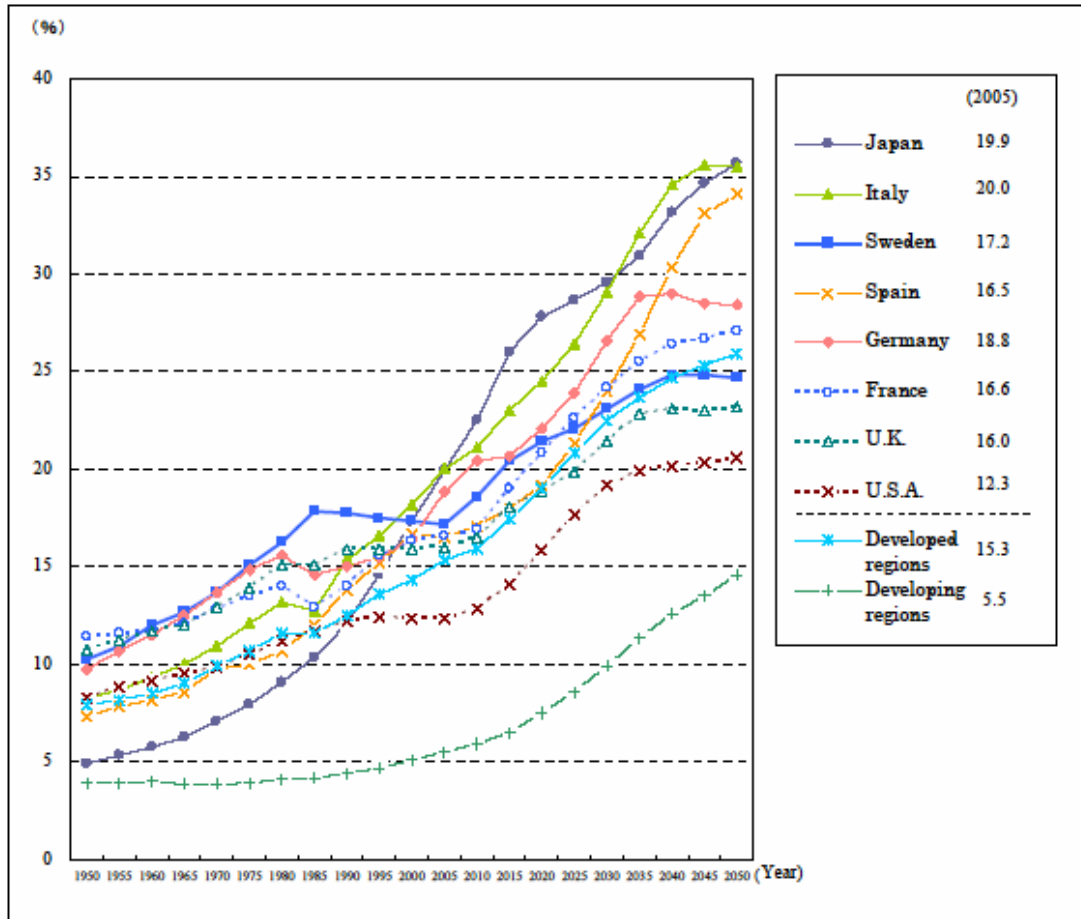
Until the early 1980s, the pace of ageing in Japan was slower than US and Europe, and only less than 10% of the population was the elderly aged 65 or older. But the percentage started to surge after that, and in 2005 Japan became the fastest-ageing society, exceeding Italy, according to the Government data released in July this year. Japan's elderly population is expected to reach 26% (33.8 million) of the total by 2015

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<sup>1</sup> This is based on the Japanese government's projection. But the Korean government says their country is already the fastest-ageing society, exceeding Japan.

and 40.5% (36.4 million) by 2055 (Fig.1).

**Figure 1: Trends in the percentage of the elderly in the world** (Source: Cabinet Office “The Status of Ageing and Implementation of Measures for Ageing Society in FY 2005”)



Source: UN, “World Population Prospects,” The 2004 Revision  
 Data for Japan is based on “Population Census of Japan” (Ministry of Internal Affairs and Communications) and “Population Projection for Japan” (National Institute of Population and Social Security Research, January 2002).

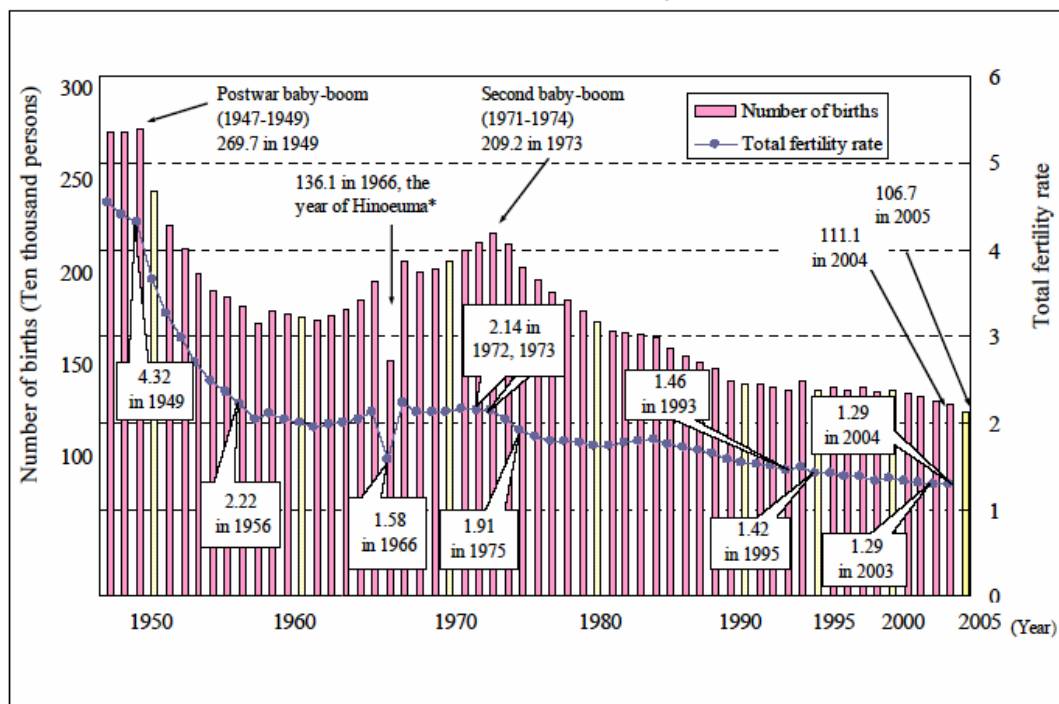
The US and many European countries began ageing much earlier in the 1930s, when a shift from high to low rates of birth and infant mortality occurred, and since then the pace of ageing has been relatively milder. In Japan, such social transformation emerged soon after World War II, when the first baby-boom generation was born. Therefore, Japan is ageing at a faster pace than other developed countries recently.

In 1949, the number of children a Japanese woman gives birth to in her lifetime stood

at an average 4.32, but it fell to 2.22 in 1955, 2.16 in 1971 (the recent peak due to the second baby boom) and plunged to 1.32 in 2006 (Fig.2). The low birth rate is attributed mainly to late marriage and couples' reluctance to have children, causing the population shrinkage that began in 2005. The 2006 figure rose slightly from 2005, but didn't show a clear sign of turnaround. By 2055, Japan's current 127-million population is likely to decline to 90 million.

While the total population is getting smaller, the elderly population is growing every year and will likely exceed 30 million by 2012, when first-generation baby boomers turn 65, and reach its peak of 38.63 million in 2042. The average life expectancy is also rising – from 67.75 years in 1955 to 85.52 years for women in 2005, and from 63.60 years to 78.56 years for men. It is forecast to go higher to 83.67 for men and 90.34 years for women by 2055. As of 2005, the number of people aged 100 and over marked a record 25,000.

**Figure 2: Trends in number of births and fertility rates** (Source: Cabinet Office)



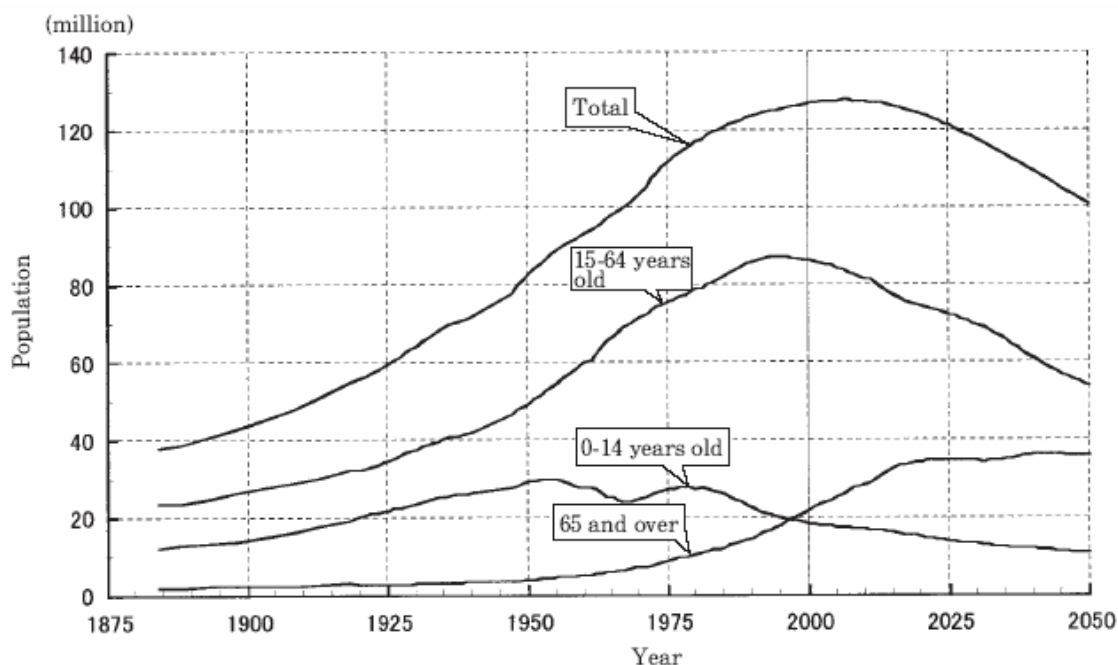
### 1.2. Concerns on Health, Labour Productivity

The longer people live, the greater risk they have of becoming bed-ridden, suffering from dementia or other health problems. In 2005, the number of the elderly in need of nursing-care stood at 4.17 million, up from 2.8 million in 2000 and accounting for

16.6% of the total elderly. The number is expected to top 5.2 million by 2025. One in two people seeking nursing-care has dementia, so the number of patients with this disease is likely to increase rapidly. But currently, the biggest cause that leads the elderly to seek the help of nursing-care is cerebrovascular diseases, although cancer is the main factor of Japanese death.

Obviously there is much need for solid social-welfare systems to support the elderly, but the fewer number of children and longer life are causing structural problems. Already, the population pyramid has become highly unbalanced, as the population of youth (aged 0-14) continued to decline from 35.5% of the total in 1950 to 13.6% in 2006. In contrast, the elderly population (65-) has risen from 4.9% to 20.8%. The working-age population (15-64) once rose from 59.7% in 1950 to 69.7% by 1991, but then it started falling every year to 65.5% in 2006 (**Fig.3**). The declining working-age population triggers concerns about the nation's future tax income and global competitiveness in productivity. The Government urges employers to hire more elderly people to make up for the shortage of skilled workers and secure their income source.

**Figure 3: Past and Future Population by 3 Age Groups** (Source: IPSS)



The data for after 2001 are based on projection. See the notes for Table 2.5 and 2.7.

### 1.3. Financial Burdens

As the elderly population rises, medical and pension costs surge, but the number of the labour force, who pay taxes to support the country's welfare system, is decreasing. As a result of policies to stimulate the economy when growth was low during the 1990s, Government debt is already the highest among developed nations<sup>2</sup> and continues to grow. Faced with growing spending pressure due to ageing, the Government must either secure additional revenues to offer high-quality public services or cut back on services.

The overall social welfare expenses (pension, medical and other welfare spending) stood at 89.8 trillion yen (GBP374 billion) in 2006. The figure accounts for 23.9% of the national income, compared to 5.8% in 1970. Concerning the expenditure for the elderly citizens only, pension benefits are the biggest expenses, accounting for about 75% of the total.

The Government's spending on medical insurance and pension benefits is expected to grow to 133 trillion yen (GBP554 billion) in fiscal 2025, up from 81 trillion yen (GBP337 billion) in fiscal 2004. Its long-term, nursing care expenditure will likely climb to 19 trillion yen (GBP79 billion) in 2025, well above the 5 trillion yen (GBP20.8 billion) in 2004 **(Fig.4)**.

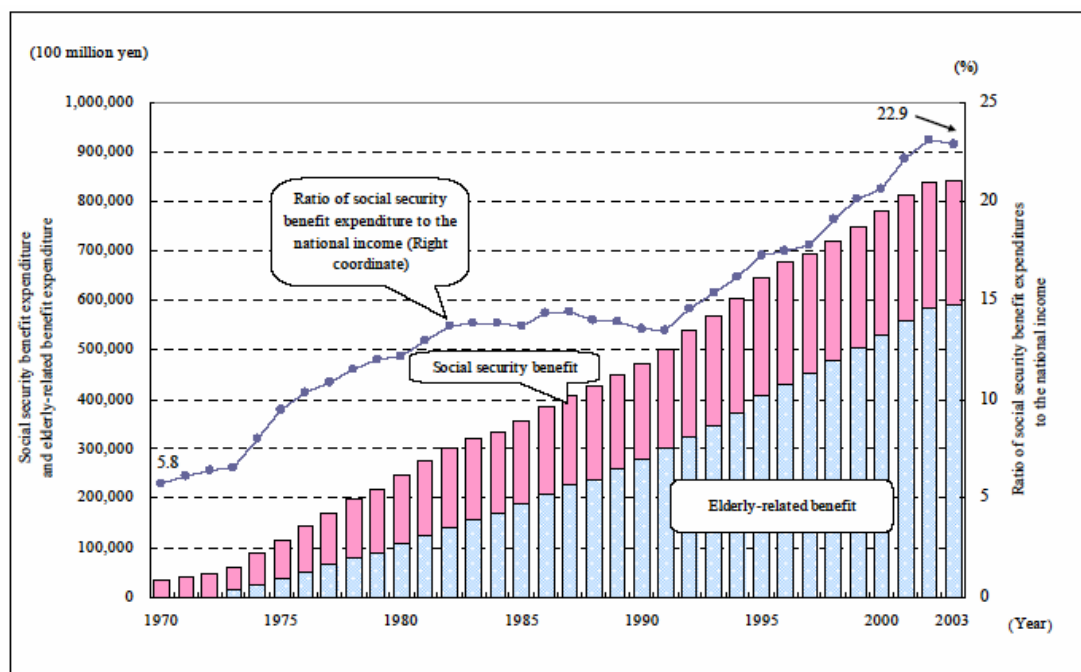
Running pension schemes soundly is a major challenge. Still, Japan is in a better position than many developed countries. The Government boasts a healthy pension balance for the time being through significant asset holdings. Furthermore, reforms in 2004 cut benefit entitlements, easing pressure on the system. Under its long-term projection, the balance of Japan's two major pension funds – the national pension and employees' pension – will show a profit through 2040 or 2050 after marking a deficit for several years until 2008 or 2009. But some critics say the projection is too optimistic because it counts on future investment returns, tax revenues and a steady increase in pension premiums<sup>3</sup>, all of which depend upon the fragile market and economic conditions.

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<sup>2</sup> In 2006, Japan's gross debt stood at 160% of GDP, well above the 49% in UK and 64% in US, according to the Ministry of Finance.

<sup>3</sup> People are becoming sceptical about how pension benefit they will receive in the future, and many young people refuse to pay premiums. In the summer of 2007, the public was outraged at the Government because it was found the Social Insurance Agency failed to keep payment record of 50 million insurance holders, and due to that many people were not given benefits.

**Figure 4: Trends in social security benefits** (Source: Cabinet Office)



Source: National Institute of Population and Social Security Research, “Social Security Benefit Expenditure”  
 Note: Elderly-related benefit expenditure includes the benefits related to pension insurance, health and medical service, old-age welfare, and old-age continued employment. It has been counted since 1973.

## 2. GOVERNMENT’S POLICIES ON AGEING SOCIETY

To deal with problems related to the ageing society, Japan enacted the Basic Law on Measures of the Ageing Society in 1995, aiming to create a society where people at all ages can live their entire lives with a sense of security. In 1996, the Government stipulated “an outline of measures to tackle the ageing society”, and released its revised version in 2001. In 2000, the Government also introduced the Long-Term Care Insurance scheme (see the section 3, the Long-Term Care Insurance at a Glance), whose pros and cons have been widely debated.

The Government also encourages employers to hire more senior people. Until recently, most companies set the retirement age at 60, but the Government started in 2006 to gradually delay the payment of public pension from 60 to 65, phasing the change in over some years. To fill the blank between 60 and 64, when many people would have few income sources, legislation was enacted in 2006 ensure companies to keep



employees until the age of 65 (but they are allowed to achieve this goal gradually over a few years). They would receive a warning if they act against it. Though more older workers are remaining in the labour force, employers are able to cut pay to older workers; many are finding their salaries halve when they reach 60 even if they remain in the same position.

The Government is also proceeding with comprehensive ageing-society measures to encourage the elderly to be more independent. In fiscal 2007, the Government set aside 13.63 trillion yen (GBP57.78 billion), almost equivalent to the previous year, to support employment, nursing-care, education, social participation, living environment and research into cancer. "Innovation 25," Japan's first long-term policy roadmap on innovation released in May 2007, calls for greater working opportunities for women and the elderly and improving productivity over the next two decades with the advent of the ageing society. Public pension and insurance schemes are constantly being reformed.

### **3. LONG-TERM CARE INSURANCE AT A GLANCE**

#### **3.1. Background – Why Is It Needed?**

The mainstay scheme among Japan's ageing-society measures is the Long-Term Care Insurance (LTCI), which the Ministry of Health, Labour and Welfare (MHLW) introduced in 2000.

As people live longer, families have to spend more and more time on caring for their elderly family members (**Fig. 5**). But it is getting difficult to take care of them, because many family caregivers are also getting older (dubbed "old-old nursing care," as children in their 60s and 70s take care of their parents in their 80s and 90s).

Nursing-care at home imposes on family caregivers mental, physical and financial burdens, leading one in four of them to suffer from light depression, according to a 2005 study sponsored by the MHLW. The MHLW says in a separate report that nursing-care is the biggest worrying factor in a retirement life for Japanese.

In the past, there had been conventional public nursing-care services, but these were not well designed. The eligible care recipients had been limited to those who live alone or on a low-income, and they had had no right to choose the care-service provider

they liked to use.

The LTCI scheme was therefore designed to change the traditional concept that nursing-care should be handled by families, and allow people to share the burden with professional caregivers. It has opened the door for enterprises to offer nursing-care service, which had been limited to public institutes in the past<sup>4</sup>.

**Figure 5. The number of bedridden elderly/sufferers of dementia** (Source: MHLW)

	1993 (year)	2000	2010 (forecast)	2025 (forecast)
Number of the physically weak elderly	900,000	1.2 million	1.7 million	2.2 million
Number of the elderly suffering from dementia who require long-term care	100,000	200,000	300,000	400,000
Number of the bedridden elderly	1 million	1.5 million	2 million	2.9 million

### 3.2. How It Works

The LTCI scheme works like this: Insurance premiums are paid 50% by people aged 40 and older, and the remaining 50% by the national and regional governments. People aged 40-64 have to pay between 2,000 yen (GBP8.3) and 6,000 yen (GBP25) a month, depending on their income level. Benefits are paid to companies that provide home nursing-care or run care-houses, but service recipients have to pay 10% of the cost. The premium for people aged 65 and older varies according to municipalities, but the average is 4,020 yen (GBP16.7) a month.

The core care recipients are those aged 65 and older. If they want to receive the care service, they need to get certified for one of seven categories (1 and 2 for “in need of support”, and 1 to 5 for higher-level “in need of nursing-care assistance”. There was only one category for “support” until 2006) from regional public health offices, and the type of available services depend upon the category. People aged between 40 and 64

<sup>4</sup> Amid the intensifying competition in the rapidly expanding nursing-care market, a scandal occurred in 2007, when market leader Comsn was found a number of fraudulent practices to attract more customers, and was driven to closure. The scandal also triggered a concern among

can be also eligible when diagnosed as one of 16 designated, ageing-related conditions<sup>5</sup>. But those aged above 65 can apply for the service regardless the cause of their health problems. The service ranges from housekeeping assistance and the use of facilities/hospitals to subsidies to purchase wheel chairs.

### **3.3. Rising Cost**

At the start of the insurance scheme, the MHLW ambitiously said it would largely help ease the financial burden of the certified elderly and their family, and provide a high-quality service. The government also prompted the elderly to be cared at home rather than staying at a hospital for a long-term (called "social hospitalisation") or care-houses, both of which are costly.

However, LTCI scheme is creating a new problem: the number of people certified to receive the care service is increasing at a faster pace than the Government had predicted. The number of care recipients grew to 4.32 million in 2005, up 70% from 2.56 million in 2000. The amount of insurance benefit payments rose to 5.8 trillion yen (GBP24.1 billion) in 2005, up 80% from 3.2 trillion yen (GBP13.3 billion) in 2000. The MHLW now estimates that the payments will likely top 9 trillion yen (GBP37.5 billion) in 2015 and a hefty 19 trillion yen (GBP79.1 billion) in 2025.

### **3.4. Controversial Reforms**

To cope with uncertain developments in society, the insurance premiums are subject to revision initially every three years. In the first revision in 2003, the premiums were slightly raised. The scheme itself is subject to review every five years, and the first revision came out in 2006.

The revised scheme is aimed chiefly to curb the Government's future expenditure by encouraging the elderly to have a more independent life. Under the original scheme there were five categories for "in need of nursing-care" and one for "in need of support." For the revised one, the MHLW added one more category for "in need of support," and reclassified many people in the category 1 into this one, which is less expensive.

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the public about the LTCI scheme's credibility.

<sup>5</sup> These designated diseases include early-age dementia, cerebrovascular diseases, Parkinson's disease, articular rheumatism, osteoporosis that accompany fracture, diabetes-related neuropathy and terminate cancer.

The result is a reduced service for people reclassified into this new category: for example, they had to give up cooking and cleaning services or wheelchair rental – which had been available under the original scheme. Under the revised scheme, they also have to pay extra money to use care-houses, and are encouraged to use less-expensive home-care service. Other efforts include physical exercise training and advice on nutrition. Insurance premiums were also raised.

Critics say the revised scheme has affected both business operators and care recipients. But an official at the MHLW's LTCI division says "some people lost the benefits of the insurance scheme, but we understand that the public overall thinks it was good to establish the LTCI scheme."

#### **4. CONCLUSION**

Since Prime Minister Shinzo Abe took office in September 2006, a number of scandals involving social welfare issues have come to the surface (footnotes 3 and 4). These problems have raised concerns about the credibility of the nation's social-welfare system in the ageing society, and success of reforms will hinge on the fate of this one-year administration. In the annual economic and fiscal policy guidelines, adopted in late June 2007, the Government pledged to fix these problems and improve the quality and efficiency of medical and nursing-care services. It also aims to reduce the number of the elderly seeking nursing-care by 30% over the next decade, partly by reclassifying them or helping improve their health conditions.

But the impact of the ageing society seems much greater than the Government's efforts to catch up. In a recent survey by the Bank of Japan's Central Council for Financial Services Information, as many as 90% of households aged below 60 said they are concerned about their life after retirement. Some 70% of them cited the reasons as insufficient savings and pension/insurance benefits. On the grim future prospect, a sharp contrast to the robust economic-growth era in most of the late 20th century, Prime Minister Abe's slogan to achieve "a beautiful country, Japan" sounds just too idealistic for many Japanese.

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