

# Elderly workers in Japan: the need for a new approach

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## **Abstract**

Aging of workforce is a challenge for society, public authorities, and organizations. Employees stay longer in work-life and have a longer life-span after retirement. Public debt going alongside with population aging exerts a strong pressure on the whole social security system, but especially on the balance of the pension schemes. So, policy makers are looking to higher employment rates for older people and delayed retirement as means of supporting social security systems. However, efforts to prolong or sustain working life are increasingly understood in a broader and deeper perspective.

In Japan as in Western Europe many people are not only able to work longer but they prefer and choose to do so. Both public authorities and business acknowledge that to make the most of the expertise and experience of older workers may be an important factor of economic growth and social stability (Bussollo and alii 2015). In view of Japan efforts for more than three decades, it cannot be denied that older workers have been high on the policy agenda in Japan. But it may now be time to examine how the traditional win-win way of managing elderly employment is evolving under the impact of demographics, the socio-cultural context, the regulatory environment and the subsequent need for changes in the social security system, and if new approaches should not be necessary.

## **Introduction**

Low fertility rates and rising life expectancy are causing the ratio of workers to retirees to shrink. Japan, which saw a large increase in dependency ratio between 1960 and 2015, went from having the lowest dependency ratio in 1960 to one of the highest in the world nowadays. Dependency ratio is bound to escalate further as population ages. It is projected to more than double in the following twenty years (ILO 2013).

But increase of the dependency ratio depends on the definition given to it. Recently, in view of the growing participation of older people in the labor market it is increasingly thought that no upper

limit should be decided in setting the threshold between working and retirement age. In Japan the growing share of elderly in the population has been accompanied by decline share of young people. It has mitigated the decline in the share of the working-age population and thus the increase of the real dependency ratio. But ageing is still most often seen from a chronological point of view even if the concept of age is multidimensional. Thus, the key problem in Japan as in many other countries is thought to be that active population will be increasingly older with less dynamism and entrepreneurial spirit, and lower productivity.

However, the psychosocial or subjective age is based on the self and the social perception of age. Because variety is high among aging workforce, stereotypes can lead to simplistic or wrong policies. Workers' identity is complex and multiform. Age is a crucial part of it but not the only one to determine the assumptions about work aspirations and appropriate and inappropriate behavior and status positions. Examples show that creativity and drive can develop through lifetime. It is shown for example in the projects aiming to promote entrepreneurial projects initiated by over 50 people (Bussollo and alii, 2015). Thus, from now on managing of older workforce may require new public initiatives but also new work-life practices in organizations at the level of HRM policies, leadership and management that fit with the multiplicity character of ageing.

In this chapter will be analyzed the main explicative factors of the Japanese peculiarities in term of employment of elderly workers. Then, will be assessed through the analysis of practices adopted in companies the direction followed by the public authorities and private concerns to keep elderly people at work in good social and economic conditions. It could be said that Japan has been quite successful in social and economic terms until about a decade ago in pursuing a policy different from that followed by the European countries in this regard.

However, the traditional practices of recruitment and re-employment of the older workers in lower status position may be difficult to sustain from now on for a number of economic, social and legal reasons. Paradoxically, it could be argued that mandatory retirement age at 60 combined with de facto acceptance of age discrimination, and large differential of treatment between regular and non-regular employment have contributed so far to explain the higher labor force participation rates for older workers. Discrimination was made palatable to the retired workers thanks to financial incentives and partial access to pension. As the conditions to keep the system in place are not fulfilled anymore the traditional practices are not sustainable anymore.

Japan public policies aim to prevent the looming drift toward even stronger tendency away from regular employment. It calls for stronger fight against discrimination in treatment for all categories of workers; facilitation of the shift from non-regular to regular status, making the recourse to non-regular status more difficult and promotion of new forms of regular employment<sup>1</sup>. Life-style related,

ethical and legal aspects changes the way workers think about their career: on the one hand, it makes age discrimination (and thus unequal pay and treatment for similar jobs) unacceptable<sup>2</sup>; on the other hand, more flexibility in career patterns is possible (for example open entry system for those who want to develop expertise or a free agent system).

So far the measures to better integrate employees in the regular labor market have targeted young and female workers in priority but elderly employment cannot be neglected anymore. The underutilization of older workers, alongside with young people and women, is viewed as a major factor contributing to the lower Japanese GDP per capita growth rates of the last decade (OECD, 2015). All those reasons require employers to start taking seriously the need to manage their older workforces more creatively and proactively.

### **Key words**

elderly workers, work-retirement practices, social security system, pension eligibility, limited regular employment, age discrimination, socio-cultural environment

### **Contextual background**

Noticeable differences had been observed until recently between European countries and Japan in regard of elderly employment and HRM practices. Authorities in the United States and Europe, where employment rates often fall sharply after age 55, have adopted well-entrenched policies promoting early retirement with generous pension benefits since the 1970s. It is only recently that they started to introduce a number of measures designed to increase employment rate and prolong working life, a belated acknowledgment of the importance of older workers as human resources.

As a result, the trend toward early retirement seems to have come to a halt. Most recent policies involve removing early retirement incentives, pension reform that rewards working longer, the introduction of more flexible work and retirement options, banning age discrimination, and educating companies about the potential labor shortages and the value of older workers for the organization (Bussolo, and alii, 2015).

The business and socio-economic environment in which operate companies played a crucial role in the success of management of elderly workers. Three important aspects must be considered,

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1 Although it may be argued that the public authorities are given contradictory signals in this regard, as shown by the new law on dispatched workers that removes the 3 years period after which a regular position had to be offered (MHLW 2015).

2 Under the 2001 Employment Measures Law, it is forbidden to impose age restrictions when recruiting and hiring. However, the law allowed exceptions that constituted disguised age discrimination. It remains a barrier for older workers in Japan although the legal environment is said to have improved during the last decade, especially for the non-regular workers (Yanagizawa 2014).

each of them being liable to have an influence on elderly employment in pushing for its extension. First the socio-cultural context can explain some behaviors and attitudes of both employers and employees' parties. Second the legal framework underlying employment and social protection in Japan pushed towards expansion of work of the elderly workers. Third, ageing employees presents an issue for management, because the age structure in a growing number of organizations is increasingly polarized between young and old workers. Therefore, organizations need to identify and meet the needs and preferences of both older and younger employees in order to raise cooperation and prevent generational conflicts that could hinder management practices and impede the optimizing of human resources (Bussollo and alii 2015).

Japan's policy always aimed to encourage the unemployed or inactive back into jobs or to urge those in employment to delay retiring in order to avoid a long rupture from the labor market. It appears clearly in the restrictive unemployment allowance policy and in the post-retirement policy that combined work, pension and retirement in particular among male workers (Seike 1998). This has been done through financial incentives while keeping in mind the long-term expected aging. Mandatory retirement age has gradually moved up from 55 to 60 and, in parallel, the age of eligibility to receive a public pension has risen from 60 to 65<sup>3</sup>.

Japanese 'workfare' policy has been cost efficient and effective for both the state and business. Labor force participation rates of Japanese males are higher than in Europe for every age group. Many older workers in Japan would still be considered middle-aged in Europe. Among the 55 to 59 year old European males less than 70% are employed or seek for employment. The corresponding figure in Japan is 94%. In the 60 to 64 year old age group the Japanese participation rate is almost double of the European figure (ILO, 2013).

### **Conceptual and Theoretical Framework / Research Methods**

The chapter examines how the concepts that have been utilized in Japan to adopt specific policies related to older workers evolve in a changing environment. It is claimed in literature that public authorities and business have made use of socio-cultural traditions that are said to favor elderly employment (Martine, 2012). Japanese culture is claimed to place a strong value on remaining productive as long as possible throughout the life course. This is particularly the case of male employment. Even among older workers, a symbolic high value is put on work (Nakane 1970)). The high employment rate of Japanese older workers could also be explained by respect for age and experience, and its association to wisdom that is traditional in the Japanese Confucian culture

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3 Since April 2013 male workers' eligibility age for the fixed part of public pension is 65 (it will be the same for female workers from 2018 onwards). The eligibility age for the earning-related part of the pension will move up gradually from 2016 onwards to reach 65 for all organizations in 2025 (MHLW, 2014).

and the subsequent supposedly positive image conveyed by older workers (Benson and Debroux 2013). In contrast, leisure and quality of private life are said to rank high in Western societies and it may make Western workers more accepting of withdrawing from the labor force at an age when they are still in good health and capable of continued work. This could partly explain why European countries and the United States have based their policy on elderly employment on early retirement up until recently.

However, while the strong work ethic of the older Japanese workers cannot be denied and while it is also true that age is traditionally respected and thought to be associated to wisdom in Japanese culture there is no indication showing that it translates nowadays to particularly positive practices in regards to elderly workers. Japanese society does not seem to be different in this regard from Western societies. As will be explained later public and business policy shows ambivalence concerning the value of older employees. Their contribution is often put in doubt and their cost claimed to be an impediment to employment. It seems to reflect the overall societal feeling in this regard. Large-scale aging strains the time and financial resources of families in a period of low growth and stagnating disposable income and is often considered a cost and burden (Martine, 2012).

The long-term perspective supposedly taken by Japanese people in their concept of career and psychological contract with the organization (Aoki 1988), as well as the Japanese organizations emphasis put on training and long-term employment, could explain the successful adoption of the Lazear model of differed reward (Lazaer 1979). Combined with an industrial structure favoring downward mobility between large and smaller organizations it has allowed public authorities and Japanese companies to smoothly manage the aging tendency and employment of older employees. But the break-up of the traditional inter-companies' ties and the necessity to cope with accelerating aging of population in a context of rapid markets and technology changes challenges the assumptions that underlined the Japanese business model in regard of wage structure and career development (Sueki 2013), leading indirectly to reconsideration of the traditional basis of elderly employment.

Public intervention in elderly employment is observed since the 1970s when Japan started to put in place its long-term strategy related to public pension. But, as mentioned earlier, it was based on incentive-driven workfare concept. What is observed nowadays is state intervention reflecting more social concern that responds to the perceived necessity of reinforcing the social safety net, while stopping (or making non-regular work better jobs) the drift towards non-regular employment that is thought to be detrimental to all categories of workers and to the economy as well (Song, 2013).

This chapter analyzes all those points through the use of the literature and examines how older

workers' issues participate to the broader transformation of HRM practices, notably challenging the dichotomy between permanent-regular and non-regular status that has been the hallmark of the HRM architecture in the postwar era. The points are illustrated by comments that are originated from interviews made in 2014 and 2015 by the author in five Japanese companies' HRM department. Two companies are in manufacturing (automotive parts and components, machine tools) and three in service sectors (general retail store, bank and insurance). The interviews have focused on the issues related to elderly employment: training, integration in teams with younger workers, conditions of re-employment (status, wage, general working conditions), and the difficulties to satisfy the regulatory environment.

### **Data / Findings / Discussion of specific examples from HRM practices**

#### **The Japanese Workfare Policy and its current Drawbacks**

Japan gradual pre-mandatory retirement typically takes the form of moving from a primary to a secondary career job with the existing employer or being 'loaned' (shukko) or definitively 'transferred' (tenseki) to a smaller subsidiary or a subcontractor (Casey 2005). This provides opportunities for older workers to retire more gradually by downshifting at the end of their career. Selected workers have always been allowed to delay full retirement after mandatory retirement. For many retirees it means 'bridge jobs' between the career occupation and full retirement. In the case of a number of routine and menial works gradual retirement takes the form of switch from full-time employment to part-time employment.

Many workers are actually performing skilled jobs in similar conditions that those they were in before official retirement but because it may mean (not always, though) shorter working hours and less demanding range of duties this may justify lower compensation even in the case of continuation with a regular employee' status. However, the key difference explaining the differential in compensation is that even in the cases of similarly demanding jobs reemployment goes with a shift to non-regular employment for the large majority of post-mandatory retirement positions, typically referred to as shokutaku status, or temporary contract worker (Imai 2011)<sup>4</sup>.

Japan is not an exception in regard of the increase of non-regular employment but the decline in the number of regular full-time employees is a particularly important issue in the Japanese internal labor market-driven HRM system. Non-regular employment for young people and women means limited access to training and career prospects. It leads to under-optimizing of talents and deprives Japan of valuable human resources, something that aging Japan cannot afford. Older workers' employment is different because companies traditionally just take advantages of the existing skills

<sup>4</sup> Aside from fixed monthly wages those workers also receive salaries under pay-by-the job schemes resembling those used widely for sales persons.

and experience that those older workers possess<sup>5</sup>.

The five respondent companies declare that they seldom continued to invest in the up-skilling of over 50 years old workers until about 10 years ago, especially white-collar workers. Legal and business pressure (notably the difficulties to secure qualified younger manpower in some specialized occupations) has started to force them to reconsider their training, dispatching and integration policy in order to optimize the older workers' talent. Indeed, the traditional reasoning of tapping old workers' pool without investing much in training and in new work patterns may not be appropriate anymore. So far, Japanese authorities and companies adjusted smoothly to the successive rise of the pension mandatory age and pension eligibility in a long-term perspective (Martine, 2012). As mentioned beforehand, workers benefited from financial incentives<sup>6</sup> (financial compensation in case of drastic drop in income after retirement) and from the characteristics of the pension system (in-work pension). As a result companies were able to devise policies enabling them to keep elderly workers beyond the mandatory retirement age at relatively low cost.

The industrial structure and governance centered on large companies strongly connected to the supply chain facilitated the implementation of schemes related to the utilization of elderly workers. Temporarily or definitively transferring workers, including (but not limited to) older workers before retirement age to subsidiary or affiliated firms helped to reduce the burden of redundant labor and thus contributed to the lowering of labor cost. Shedding workers in good conditions, i.e., they had the opportunity to move to another job, did not strain labor-management relations and did not entail high cost of re-training. It gave the opportunity to continue to train remaining selected workers (especially blue-collar workers) even in the 50s. Doing so, those workers maintained appropriate level of skill and ability necessary to pursue activities after retirement.

Flexibility of wages (often meaning de facto acceptance of age discrimination because similar jobs were not equally rewarded) gave the opportunity to deal with the higher costs of aging workers associated to lower productivity. Because of the change in status they could be paid wages about 30-50 percent lower than before retirement, which made them cost-attractive and competitive compared to younger workers (Martine, 2012). Receiving about 75% of their former wage (financial incentive included) it explains why many retired workers were even eager to perform similar jobs

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5 Job-training programs specifically targeted at older workers either do not exist or are rare in Japan. However, participation of elderly Japanese workers to training programs is high by international standards. Through grants the government encourages middle-aged and older workers to take responsibility for keeping their skills up-to-date and improve their employability. Even so, as in other countries decline of training investment in senior workers after the 50s is observed in Japan.

6 The government offers incentives to employers to retain or recruit older workers. For example, companies may receive subsidies for offering reemployment or extended employment. Wage subsidies are also available through the unemployment insurance system to full-time workers aged 60-64 who earn less than 75 percent of their former wages, so the take-up that is paid through the unemployment system is low (Martine 2012).

as before retirement. Thus, it was often a 'win-win' situation for both parties.

But the transformation of the industrial structure makes more difficult to count on subcontractors and affiliated companies to absorb redundant workers and facilitate the selection of the most appropriate human resources as it used to be. In the past the relatively high cost of transferred workers could be compensated by the necessity to maintain close relationships between the organizations. But large companies have looser relationships with Japanese suppliers, reducing the opportunities of transfers. Moreover, although small and medium size companies account for the very large majority of elderly workers' employment these workers have made their career in those companies and often have high firm-specific skills and experience. Suppliers are more reluctant to take elderly workers whose work experience and knowledge may be unrelated to their specific needs and/or obsolete. This is true in manufacturing but also in service sectors where long-term relationship with customers (who are also aging) is a key success factor (Nabeta 2011).

So, just at the time they are legally obliged to keep a larger number of workers in the organization large companies have less opportunity to make the same efficient selection as before. As a result, they are forced to think about managing in a longer perspective a bigger number of workers that include people they would have been able to out transfer previously.

### **The Necessity of a New Deal**

Public authorities need to have workers work and earn a stable income permitting them to maintain decent standards of living. The rise of the age of eligibility to receive public pension makes work a necessity for many elderly workers who arrive at the end of their career or who lose their job. It not only can put inactive people in dire financial situation but without possibility to receive part of the pension many 60 to 64 elderly workers could also become working poor, unable to move smoothly towards definitive retirement. Their social and economic contribution would be small, i.e., they would be unable to contribute to the alleviation of social security cost through care of parents and because many of them could even be forced to sell assets to survive they may cause damageable asset (real estate) deflation.

There is a growing unbalance between the amount entering the pension system and the money going out for the beneficiaries. Expenses for social security already amount for about 30% of the total general budget (Hansen and Imrohorglu, 2013). It can hardly be financed anymore by either tax or debt in view of the dire state of public finance. In contrast to the United States and European countries, where contribution rate or retirement-age changes to the social security system are few and far between, Japan's pension system is reevaluated at least every five years to balance premiums and benefits with existing socioeconomic conditions (Hansen and Imrohorglu, 2013).



Those conditions being unlikely to improve much if at all, the minimum rate of pension for 60 to 64 workers amounts that is already quite low by international standards, i.e., about 45% of wage at the time of retirement may continue to decline and increase the necessity for elderly workers to work in good conditions (OECD 2013).

Even those over 65 tend to stay in the labor market because pensions may not be high enough to sustain their standards of living. In view of the longer life expectancy elderly Japanese are afraid that their savings will not be enough to cover their growing medical and care expenses in the latest part of their lives. They need to be able to keep their standards of living while taking care of their parents in a country where more than 5 million people are over 80 (OECD, 2015). The enactment of the Law on Care Insurance in 2000 makes mandatory the contribution of everybody over 40 residing in Japan to contribute to an insurance that would serve to cover part of the care cost in old age (Tsutsumi 2015). However, it does not mean that the state does not count anymore on families. In view of the cost of residential care Japanese government is shifting the emphasis of the law (through the incentive policy) toward home care. In this case, although limited help care from outside can be expected the burden of the family is bound to increase (Tsutsumi 2015).

The number of age 60 and older non-regular employees is observed, along with growth in their share within the total number of non-regular workers. This phenomenon can be described as the aging of non-regular workers. There is nothing wrong about non-regular employment as such and the number is likely to increase furthermore in the years to come. The problem is that many older workers (young people and women as well) occupy under-qualified jobs, are not given the opportunity to acquire skills and are not paid fairly (Martine 2012).

Improvement of the treatment (access to training, fringe benefits, reward) of non-regular full and part time workers can be assured by enforcement of the existing laws. They have been poorly enforced so far and improvement can also come from stronger government pressure (Oriental Economist 2015). At the same time a shift from non-regular to regular employment is already noticeable in some industries such as amenities and retail where the high turnover of non-regular workers is becoming a business liability (Keizer 2010). Although business focuses mainly on younger workers and women for the time being the push from government to act can also create opportunities for elderly workers.

In the two respondent manufacturing companies efforts are made at different stages to accommodate their needs. Attempts are made to mix younger and older workers (mostly pre-retirement workers but with in mind that a sizeable number can be expected to continue to work after mandatory retirement) in production teams. Specific equipment is developed and facilities revamped, and working time and standards pace are adjusted in order to fit with older workers

characteristics. Training is a key element and companies are ready to continue to train over 50 years old workers provided that they have enough learning potential.

In the Japanese service sectors where productivity is very low (Ueda, 2012) improvement is likely to be linked to adoption of technologies, including in the fields of the three service-related respondent companies. Higher and higher ICT literacy is required and a grasp of new (mostly) internet-driven business models is a must. Nevertheless, opportunities can be created for elderly labor with the right skills or the capability to acquire new skills. In this respect companies are ready to increase the possibilities for off-the-job training to older workers.

All five respondent companies agree on this latest point but they share the opinion in regard of the limits to what they can do to create good jobs for elderly people. They put emphasis on the need for external flexibility, as salaried person but also as self-employed kind of mobile 'free-agent', in connection or not with their former employers. The percentage of self-employed old people in Japan is already quite high. Nevertheless, companies declare that adoption of innovative new work patterns is necessary that encourage workers to work on 'second career' outside of the company. They have started such programs twenty years ago, for example in developing cafeteria-type of training unrelated to the actual jobs performed by the workers. It was in line with the deregulation of the temporary agency work in the 1990s that became a key element of government' objective of increasing external labor mobility, especially of middle-aged and elderly workers<sup>7</sup>. However, with the obligation of keeping workers until 65 there is a need for up scaling and enlarging of the scope of the programs that the respondent companies declare to be beyond their means of individual businesses. They claim that it can only be done in collaboration with public (national but especially local) authorities and private organizations such as the employers' organizations and chambers of commerce<sup>8</sup>.

### **The Growing Legal Framework aiming to protect elderly Employment**

The first initiatives to protect elderly employment were of a voluntary character. In 1971 the setting of quota of over 45 years old workers was envisioned. A second initiative in 1973 induced

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7 Through revision of the Temporary Agency Work in 1994 occupational limitations for workers above 60 were almost completely removed. Only activities that are not permitted are listed in the law. The objective of the law is to expand employment opportunities, especially after retirement (Ministry of Labor 1994).

8 The Silver Human Resource Centers (employment agencies) are a source of part-time, relatively low-skilled subsidized community service employment. The Association of Employment Development for Senior Citizens, consisting of employer groups that receive financial support from the government, has been commissioned by the government to encourage companies to devise strategies for retaining and employing older workers. The efforts involve counseling and advice on working conditions that promote the employment of older persons, adjustment of HRM systems to adopt HRM systems that encourage older worker employment and policies to improve working environments.

employers to report the mandatory retirement age to 60 instead of 55 in order to have it coincide with the age of eligibility to public pension. A constraining measure was taken in 1976 that imposed a quota of 6% of over 55 years old workers in all companies. In 1978 a system of subsidies was put in place to encourage employers to re-employ the workers between 60 and 64 (Martine, 2012). The Law on Stabilization of Employment of Elderly Workers of 1986 intended to encourage (and not to force them to do so) companies to delay the retirement age to 60 or over in offering subsidies. An amendment to the law in 1998 made it compulsory to do so.

A 2000 amendment to the same law urged employers to 'endeavor to devise measures for ensuring employment up to 65', but business and labor unions were reluctant to shift to a mandatory retirement at 65. Business considered it unrealistic at that time and they have not changed their stance to the present days. Unions were aware that the move would require the flattening of the slope of the age-wage profile at a still earlier stage of career than now, an evolution that would be detrimental to the interest of their key constituents.

As a result, mandatory retirement at 60 remained (and still remains) legal in Japan, a much lower age than in most other advanced economies. For a long while employers could require workers to retire at that age and were under no obligation to keep workers on beyond the mandatory retirement ages they had set. Therefore they had a strong bargaining power in negotiation with workers who were wishing to continue working. But a new amendment to the law in 2004 made mandatory to put in place by June 1, 2006 an employment system that was aiming to expand employment up to 65 (*keizoku koyo seido*)<sup>9</sup>.

The law also imposed on companies the obligation to all employers to transmit every year to the Ministry of Labor the situation of elderly workers, i.e., the policies adopted to keep them in activity as well as their employment level. Therefore, although companies needed not employ all older workers if there was an agreement between management and labor this was a stronger and clearer statement than that of 2000. It went alongside with measures to encourage workers to stay in the labor market after retirement. The removal of 20% from the retirement allowances of 60 to 64 years old workers who continued to work was removed, taking away what was considered a disincentive to post-retirement work (Martine 2012). Moreover, since that time those over 70 can receive 100% of the basic pension without paying anymore the pension premium if they wish to continue to work.

Very few companies moved up the retirement age to 65 or scrapped the mandatory retirement system because of the perceived loss of flexibility in term of workers' treatment and the subsequent

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<sup>9</sup> Employers could choose among three options: 1. keeping of mandatory at 60 while assuring employment up to 65 (*koyōenchō seido*); 2. extension of mandatory retirement at 65 (*teinenenchō*); 3. abolishment of the mandatory retirement age (*teinenhaishi*). This new regime was directly linked to the reform of the pension system that envisioned the gradual rise of public pension eligibility age (MHLW 2015).

financial strain that it could entail (Nabeta 2011). During the last decade (up to 2013) the two manufacturing respondent companies declare that directly re-employed workers (including in subsidiaries) amounted to about 30% of the total of retirees, the large majority of them production workers continuing to work full-time. In the retail company the ratio was close to 20%. Conversely, it was about 15% in the financial institutions. In the latter three cases most of the occupations were unskilled and semi-skilled part time jobs. In financial services and insurance businesses elderly specialized retirees have the possibility to start a business on their own and they most often do not remain in the company.

The five respondent companies agree with business in general that mandatory retirement at 65 would be counterproductive for elderly employment in the present environment. All of them stick to the 60 years old mandatory retirement for the time being. At the opposite of the wish of government to see a shift away from non-regular employment setting they believe that mandatory retirement at 65 could accelerate the move away from regular employment before retirement. They think that mandatory retirement will be lifted up to 65 and even to 67 or above in the future. They acknowledge that they have to prepare for it but they insist on the point that change in the mandatory retirement age cannot but be part of a broader revamping of the regulatory environment. Notably, it should require significant changes in the possibility of laying-off regular workers. This being said the two manufacturing companies and the retail chain have shokutaku-type employees who are over 70. They declare that the number of employees between 60 and 64, and over 65 is likely to increase in the following years because of shortage of labor.

However, they want to keep enough flexibility in order to have employees fitting their needs at reasonable cost. In the finance and insurance companies hearing and counseling activities are organized every year for the over 55 years old employees. It is also true in the two manufacturing companies but only every two years from 56 years old onward. The companies declare that they want to know as precisely as possible the learning potential of the employees but also their career intention. It is important in order to understand to what extent they will be able to utilize them after mandatory retirement (workplace location, working hours, scope of duties, etc) and the type of training they might need.

Japanese government does not seem eager for the time being to make retirement mandatory until 65. Conversely, it is unlikely that drastic legal changes will occur that would facilitate lay-off of regular employees. But with the new amendment of the law taking effect in April 2013 the loophole permitting companies to keep only selected workers between 60 to 64 years old is closed (MHLW 2014). They are now required to establish the programs necessary to retain all workers who want to work up to the age of 65. The stick goes with carrots and incentive-driven measures have been

enacted to improve employment opportunities and to keep the elderly at work: training subsidies are available to keep senior workers at work and facilitate the search for a new employment to workers over 60 (Martine, 2012). But companies are under control to go along increasingly constraining public policies.

### **The necessary management changes**

The pressure put on companies could lead to either to a 'win-win' outcome or a 'lose-lose' one. It could put at the disposal of companies a dedicated, reliable and experienced work that would contribute to business performance, alleviate the burden on the social security system and boost domestic demand. But it requires the right HRM strategy, the devising of decent working conditions in terms of time, quality of work, and compensation. Otherwise, it could induce a decline of working conditions for elderly workers that would be not only ethically unacceptable but also unsustainable in economic term.

It is recognized by the respondent companies that monetary and non-monetary incentives are needed to maintain the traditional high task and organizational commitment of older workers, especially if the workers feel the obligation to stay in the labor market without being able to keep decent living standards. Eventually companies acknowledge that they could end up with low productivity elderly 'trapped' workers. This is all the more important in Japan because of the traditional emphasis on acquisition of firm-specific skills that makes Japanese workers (especially older workers) much less mobile than those in other advanced economies.

Although elderly Japanese workers are far more likely to be in the labor force than their European or American counterparts, once unemployed, the chances for reemployment are not good and the duration of unemployment is long. This calls for life-cycle approach to labor force activity that would increase the chances of prolonging employment by ensuring higher and more adaptable skills at work. It is in this line of thought that must be understood the willingness of the five respondent companies, backed up by the state, to make older workers more autonomous to the point that they can create their own job. It rejoins the position expressed in some European countries, especially the United Kingdom that self-employment may be a promising avenue to sustain activities of elderly people (Hatfield 2015).

### **The Limit of the socio-cultural Factor**

As mentioned beforehand a set of beliefs and values, deeply engrained in Japanese society, that are presented as inducing active aging, is also claimed to explain the peculiarities of Japan in matter of elderly employment. Quoted in Martine (2012) a 2005 survey on the optimal employees'

retirement age it was observed that 32% of Japanese respondents answered 70 years old, while the same age was mentioned by 14.6% of the Americans, 4.6% of French people and 2.4% of German people. It was also pointed out that 37% of Japanese males and 41% of females envision the pursuit of professional activities as long as they would be able to do so (Kajitani, 2008). Therefore, it may be true that the relatively higher rate of Japanese elderly workers' activities can be associated to some extent to socio-cultural factors. Older Japanese are apparently highly motivated to work into their late 60s, assuming good health, and many do.

However, as pointed out in Martine (2012) gradual deterioration of elderly image is observed, a trend that accelerated with industrialization, the weakening of rural society, the shift towards nuclear family and the loosening of family ties (Wada 1997). True, the development of the social security system in the 1970s accelerated the shift toward public policies replacing family in the care of elderly people (Wada, 1997). The law on care insurance boosted furthermore this tendency. However, it is observed that in 2014 about 100000 Japanese people were forced out of the labor market because of the care of parents (Ministry of Health, Labor and Welfare 2015), a trend that is bound to grow with population aging and is clearly economically unsustainable and negatively perceived by families.

Negative opinions about older worker costs, technological competence, flexibility, and the ability to adapt to new work patterns often undermine efforts to get companies to recruit and retain older workers and limits the options for continued employment (Iwata 2003). Respondent companies are globally appreciative regarding older workers' loyalty, dependability, and judgment. However, they make rather negative assessments of attributes such as technological competence (including but not limited to IT literacy) and functional flexibility, which are viewed as critical in today' s workforce.

To the question that the problem may be more serious in the case of white-collar employees who very often have not acquired new skills in the 50s respondent companies answer that it is generally true. It may take a generation before more specialized white collar workers who made their career under performance-driven evaluation and reward systems and have received more specialized training replace the current white collar generalists. But the two manufacturing companies add that appropriate skills and experience is also increasingly a concern in the case of elderly blue-collar workers. Technological and market environment changes leads to deskilling of many occupations but also to the need for up skilling of others. Many blue-collar workers have skills and experience that are not suitable for the new types of occupation in their own field. This calls for changes in job and career design (and subsequent specific training in some cases), a task that requires time and financial resources, first of all, a precise fine-tuning of the selection of those who should be trained, their working conditions and reward system.

## The Reconsideration of the Lazear Theory

Longer career is an important element (alongside with the changes in the valence and career expectations of younger employees) putting in question the applicability of the differed wage theory described by Lazear (1979). According to Lazear the wage - earnings profile is made steeper than the age - productivity profile that is frequently non - linear and stagnates or declines in older age. The organization pays to the employee a wage that is lower than his/her marginal productivity in the first stage of the career but is higher in the second stage of the career. So mandatory retirement is part of the incentive structure. It is directly linked to the long-term job guarantee for regular workers, going alongside with seniority evaluation and reward correlated to the assumed value of experience and continuous acquisition of mainly firm-specific skills<sup>10</sup>.

Although they remain important in some industries to nurture unique knowledge and organizational skills firm-specific skills are said to be comparatively less important in both service and manufacturing industries. Too high reliance on them may even hinder the ability to react to discontinuities. It makes not only difficult to justify high wage for old workers (Keizer, 2010) but it forces companies to reconsider the whole process of skill acquisition and thus the wage curves at an early stage of the career. It is a difficult task and is likely to takes time to implement in Japanese companies where the introduction of job-based work patterns, evaluation and reward is very gradual.

Japanese companies have already integrated the impact of workforce aging in their wage curves. Male wages rise until about ages 50-55 after which they fall sharply (Ministry of Health, Labor and Welfare 2014). Therefore, older pre-retirement workers are already less expensive than before. However, it is only in the years to come that the shift away from seniority and the introduction of performance driven appraisal and reward systems since the 1990s are likely to start having a significant impact on older workers' income. For the time being the impact of the changes is limited (Sueki, 2013).

It could be argued that the shift away from seniority system may be beneficial to (some) older white-collar workers. Especially when coupled with skills erosion, the seniority system was undermining efforts to promote the employment of while-collar older workers – too many of them where not re-employable in skilled jobs. From now on companies could be more enticed to continue

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10 In order to not lose the benefit of the rent workers are induced to keep making efforts and not to leave the organization lest they could be transferred elsewhere in places where they do not receive the same treatment. The consequence would be a heavy opportunity cost. But the system works only if the firm can terminate the contract at a certain age. If for some reason the firm cannot make older workers retire it would cost too much to pay relatively high wages for relatively low productivity (Aoki 1988).

to devote resource to specialized training to the older workers who already have specialized knowledge and still have learning potential. As mentioned before wage curve are likely to flatten at an earlier age than before with the adoption of pay for performance system. If it goes alongside with reconsideration of the practice of the retirement allowance (taishokukin) with represents around 10% of the total work-life revenue (Sueki, 2013)<sup>11</sup> the Lazear theory could become irrelevant in the new Japanese context.

### **The opportunities of higher status flexibility**

In view of the wide disparity in terms of business needs, skill level, physical capabilities, and variety of life-style and time availability many elderly workers are likely to continue to shift to non-regular status after retirement. The Part-Time Workers Act requires that companies pay regular workers and part-time workers the same wage if they are doing the same job (Oriental Economist 2015). The problem is that the law is not properly enforced. In regard to non-regular workers, court decisions have almost always favored the company. So, it is a question of political willingness to correct the situation (Oriental Economist 2015).

At the same time it is a plausible hypothesis to believe that regular-types of jobs can also be created. Although the rules relative to lay-off are unlikely to be changed abruptly gradual evolution is a plausible hypothesis. It will probably be linked to the creation of new working status that will dilute the regular – non-regular status dichotomy and leads to limited (in some dimensions) but regular types of jobs. It means that the workers would continue in principle to get access to the advantages bestowed to the regular employees, i.e., bonus, fringe benefits, equal salary for equivalent job. Because of the job limitations it would be possible to compromise over compensation with the terms of the deal kept open and clear. It could be more affordable to companies while responding to elderly employees' needs for smooth transition to definitive retirement.

Various limited-regular employment schemes have been adopted in many sectors since the 1990s, mostly for female employees but without being put in a clear legal setting. There are already companies that have introduced a status of limited regular employees that is aimed at elderly employees in the same way that they have introduced similar schemes for female workers (Debroux, 2016).

Jobs could keep characteristics that are similar to those of typical regular employees in terms of working hours and scope of work but be geographically limited (de facto meaning transfer in a workplace fitting with the needs of both parties). Conversely, there are cases in which the

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11 It is pointed out (Sueki, 2011) that it is not the case now but it can be plausibly argued that it will happen in the years to come alongside with the diversity of career paths and higher mobility in the labor market that creates a larger external labor market.



performed tasks and duties are limited, as well as working hours in order to satisfy the need for care of elder parents but there is no geographic limitation.

## **Conclusion**

While pursuing a pro-active workfare policy it can be argued that until recently Japanese authorities and companies have never really thought about policies that would favor in good conditions (decent work and wage, consideration of age limitation in term of working hours, mobility, scope of work) a smooth transition toward retirement. The low mandatory retirement age that was combined with financial incentive have made many companies complacent in this respect. In addition to the challenges regarding labor policy, changes in the labor supply structure (overall reduction in the labor force on the one hand, increase of women and older people in the labor market on the other) urge public authorities and companies to consider utilizing elderly workers more efficiently and effectively.

There is a need for flexible pathways to retirement as a means of increasing the length of the working life. The self-employment option is already explored and companies and public authorities intend to invest in new programs. However, most old workers can be expected to remain salaried persons.

If non-regular work conditions can be upgraded to the point that it provides decent work treatment to a large number of 60 to 64 retired people, and flexible but regular types of jobs can be created for some of them at the same time, convergence with other advanced countries could occur in regard of the mandatory retirement age, an evolution that would be considered normal in view of Japan demographics. In macro-economic term it would put Japan in the mainstream of the advanced countries where retirement age shifts towards 67 and even 70 years old. The issue of providing decent jobs for all workers would remain hard to tackle as in Europe but it should become more palatable for business and the unions to accept a move towards mandatory retirement at 65 and even above. As a result it could lead to the building of an employment system making the best use of the elderly workers in economic but also social terms.

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