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Japanese Social Security for the Elderly from a Viewpoint of Life Cycles

Masanobu MASUDA* and Katsuhisa KOJIMA**

Abstract This article presents an overview of the historical development of the social security system for the elderly and a general view of current social security policies in Japan. Furthermore, we analyze the benefits and burden of social services in terms of life cycles as well as income distribution by age groups, and discuss the issues of the social security system to be dealt with in the future.

The characteristics of social security systems for the elderly have been changing from the aid for the poor to general and universal policies by which anybody in need of assistance can receive social services and benefits regardless of his/her income. The social security benefits for the elderly have been expanding in recent years. Their share is approximately two thirds of the total social security benefits. However, there is an excessive income transfer from the working generations to the elderly. In the future it is necessary to reevaluate and reexamine the benefit and burden level for the elderly and make adjustments among different programs such as pension, medical, and long term care insurance in order to make the social security system more efficient and to reduce the burden on the working generations and thereby secure impartial benefits and burdens among different generations.

1. Introduction

The FY 1986 Annual Report on Health and Welfare, published in January 1987, was an important document that presented a clear message to the Japanese people about the development of social security policies from the end of the 1980s to the present. The report, based on the Population Projection for Japan estimated January 1986 by the National Institute of Population, emphasized that Japan would become a "super-aging society" in which one out of four people will be aged 65 or older in the first half of the twenty-first century, and the rate at which this will occur will exceed that of the Western industrialized countries.

This annual report stressed that the period from the end of the 1980s through the 1990s, when the working population was large, the dependent population was small, and economic growth was high, would be a "crucial and appropriate time to construct a socioeconomic system to prepare for the arrival of the super-aging

* Director, Office of Systems Designing and Data Processing, Statistics and Information Department, Ministry of Health, Labour and Welfare.

** Senior Researcher, National Institute of Population and Social Security Research.

society, and we should not miss the opportunity" (Ministry of Health and Welfare 1987, p. 11). "At this transitional period to the aging society of the twenty-first century it is necessary to reexamine the appropriateness of current social security policies, and construct a stable and reliable social security system by making necessary changes to the existing system" (p. 13). The FY 1986 annual report predicted the improvement of Japan's social security system that occurred in the latter half of the 1990s.

This paper will discuss the social security system for the elderly in terms of an individual life cycle. The social security system has expanded and developed with respect to policy progress, increased eligibility of recipients, increased social security benefits, and creation of new programs. The scope of development has exceeded the prospects discussed in the FY 1986 annual report.

In section 2 we will present a historical overview of the social security system for the elderly, and in section 3 we will present a general overview of the current social security policies toward the elderly. In section 4 we will analyze the benefits and burdens of social services in terms of life cycles and income redistribution by age groups. In the conclusion, section 5, we will discuss the issues of the social security system to be dealt with in the future.

2. History of the Development of a Social Security System for the Elderly

2.1. Pre-war Period

The history of Japan's social security system is that of generalization and expansion: policies previously targeted only to the elderly poor became available to the elderly in general. Any elderly person can receive social service benefits despite differences in income and household types as long as he or she is eligible for social assistance.

During the Meiji period until the end of World War II there was no legal system for the general elderly population except for the poverty relief system. Eligibility for relief, methods of relief, and benefits were extremely limited. The first legislation, the Poor Relief Regulation, enacted in 1874, had been the main pillar of the poverty relief system for a half century until the Poor Relief Law of 1929. Though it was important in the history of public assistance, it did not place responsibility to provide relief for the poor on the government. Rather, the legislation made it clear that the government had no such obligation, and it exemplified the principle behind the relief measures of the Meiji period, which relied on individual charities rather than government (Ministry of Health and Welfare, Nijunenshi Hensan Iinkai 1960, p. 44). In other words, relief for the poor was basically expected to come from the

"mutual benevolence of people" and "mutual assistance" of neighbors and friends. Public assistance was extended only toward the "people in distress without anyone on whom they could depend." Under this law a single man over 70 years of age in severe poverty, who could not work because of serious illness and senility, was eligible to receive three cups of rice a day (two cups per day for a woman). The conditions for eligibility were very strict, and many who needed relief could not get benefits. It was not sufficient as a relief system.

The Poor Relief Law created a support system for the needy that preceded the establishment of the public assistance system. This law applied to senile people over 65, children under 13, pregnant women, and those who were unemployed due to physical handicap, who could not make a living because of severe poverty. The relief was administered by the executive chiefs of municipalities as the agents of the national government, with the assistance of local area commissioners, predecessors of the present community welfare volunteers. The four groups eligible for assistance were provided with living support and medical relief. Half of the cost was met by the national government, and the other half was met by prefectural governments and local entities, such as cities, towns, and villages, respectively. Though the Poor Relief Law was more advanced than the Poor Relief Regulation in that it made the national government responsible for providing relief, strict conditions were placed on eligibility for aid, the content of that aid, and the levels of benefits, and recipients' rights were still very limited.

2.2. Post-war Development

In the half century after WWII the social security system for the elderly developed dramatically. The post-war period can be divided into five periods: from 1945 to the 1955, the mid-1950s to the mid-1960s, the mid-1960s to the early 1980s, the 1980s to the early 1990s, and the 1990s.

During the ten years from 1945 to 1954, as in the pre-war period, no legislation was crafted specifically for the elderly. The Daily Life Security Law (the former Daily Life Security Law of 1946; the present Daily Life Security Law enacted in 1950), which was based on the provisions of Article 25 of the Constitution of Japan ensuring people's rights to live, only dealt with poverty relief for the elderly poor. The nursing facilities for the aged, which had existed since the pre-war period, were regarded as security facilities, under clause 38 of the Daily Life Security Law, to provide living assistance to elderly people unable to lead independent lives due to their senility. This period, therefore, was similar to the pre-war period, when the relief policies for the poor addressed the problems of the elderly poor.

During the second period, from the mid-1950s to the mid-1960s, universal medical care insurance and pension programs were implemented in 1961, after

the enactment of the new National Health Insurance Law in 1958 and the National Pension Law in 1959. In 1963 the Welfare Law for the Elderly was enacted. The introduction of universal medical care insurance and pension programs established the medical and income security system for the elderly. The Welfare Law for the Elderly also established the welfare system for the aged. This period was significant because policy shifted from poverty relief to the establishment of a social security system for the elderly in general. The shift was partly a response to the social changes after WWII, such as the disintegration of the pre-war feudalistic family, the increase in the aging population, the demographic shift to cities and the increase in nuclear families, and changes of industrial structure. In the late 1940s and 1950s the social consensus grew that public assistance would be necessary for the elderly who had been unable to adjust to the drastic social transformation of Japanese society, whose incomes grew more slowly than those of the younger working generation, and who were suffering from the price hikes associated with economic growth.

The Welfare Law for the Elderly, following the enactment of the Child Welfare Law and the Law for the Welfare of People with Physical Disabilities, was enacted with strong public support from welfare organizations and senior citizens' groups. The law clarified the responsibilities of the national and local governments toward the welfare of the elderly, and endorsed a systematic and universal approach to welfare policies for the aged, such as the promotion of facilities for the elderly, home welfare, health promotion, and social participation. In the area of facilities, the nursing facilities were renamed as nursing homes. New special nursing homes were created. The existing nursing homes for the elderly that charged a moderate fee and other fee-charging homes were given legal status. The law also included regulatory rules for operation of nursing homes. As for in-home welfare, home service was established. However, those services were modest when the law was implemented, and the recipients were mainly low-income people who received public assistance or whose local taxes were exempted.

The Welfare Law for the Elderly was praised as "the first elder-related law in the world" at the time of enactment. However, from a present legal point of view, it was based upon the perception of the elderly as "weak" and "passive beings" who would need social assistance. This view was understandable, considering that the basic purpose of the law was "to protect and favor the elderly for the following two reasons. The elderly are weak people that are physically and mentally handicapped, in comparison to the rest of the population. They also have contributed to the society in the past."[1] This perception reflected the general understanding, at the time of the law's enactment, of the fact that welfare policies

[1] Shakai Fukushi Shingikai, "Rojin Fukushi Shisaku no Suishin ni kansuru Iken," 3 December, 1962.

toward the elderly were still underdeveloped in the rapid social transformation, and so were those of the social security system, such as pension programs.

In the third period, from the mid-1960s to the early 1980s, improvements were made to the benefits paid by the medical insurance program and the pension program, and new welfare services, such as short-term stay (1978) and day care services (1979), were created. The most noteworthy was the new medical service system under which all medical services became free for the aged. In response to public concern over the increasing financial burden of medical costs on the elderly, the government began to examine different options. The local governments' policies to decrease medical costs also promoted the introduction of new medical services by revising the Welfare Law for the Elderly. This new medical service program caused the rapid increase of health expenditures for the elderly, and it was later replaced by the Health and Medical Service Law for the Elderly, which introduced partial cost-sharing of health services. Free medical services for the elderly were introduced because the burden on the elderly of the medical insurance system was heavy: 30% of the cost of medical services was covered by the insured under the national health insurance program, and 50% was paid by the elderly dependents covered by the employees' medical insurance. No high-cost medical care benefits existed to set a maximum limit to cost sharing. Furthermore, income security in old age was not assured because of incomplete pension programs. The increase in tax revenues due to the high economic growth created a favorable government financial situation, with an annual budget increase of more than 10% for free medical services for the elderly. The effects of the medical care expenditure provision system on the social security system were a dramatic increase of medical costs and also a large difference between the share of the medical costs paid by the elderly and the share paid by the working generations. Since then, differences in burden sharing of medical costs by the elderly and working population have been taken for granted in discussions of the medical insurance systems for the elderly.

In the fourth period, from the 1980s through the early 1990s, a sweeping reform in the medical insurance, pension, and social security systems was carried out. A new burden-sharing system was introduced with the enactment of the Health and Medical Service Law for the Elderly, under which medical costs for the elderly are shared fairly by all people insured under medical insurance programs, and the elderly patients themselves bear some part of the medical costs. The basic pension system common to all the population was introduced by reforming the traditional national and employee pension programs. Other changes included the transfer of administrative authority from the national government to local governments and municipalities with regard to the provision of welfare services for the elderly. One example of these changes was embodied in the revision of

the Welfare Law for the Elderly. The reforms of the previous systems were pivotal in restructuring the previous social security system for the elderly. In this period the Laws on Certified Social Workers and Certified Care Workers, the first certification program in welfare, were enacted to improve the quality of workers in social welfare fields and to promote professional training.

In the fifth period, the 1990s, the Ten-year Strategy to Promote Health Care and Welfare for the Elderly (the so-called Gold Plan) and the New Gold Plan were implemented in 1990 and 1995, respectively, to promote institutional and in-home health care services for the elderly. In addition, discussions of the public long-term care insurance system led to the enactment of the Long-term Care Insurance Law in 1997. Ideas such as user-orientation, self-support, service selectivity, comprehensive services, quality improvement, and regionalism have become very important. Furthermore, in this period private businesses began to play a major role as service providers, especially in the area of long-term care for the elderly.

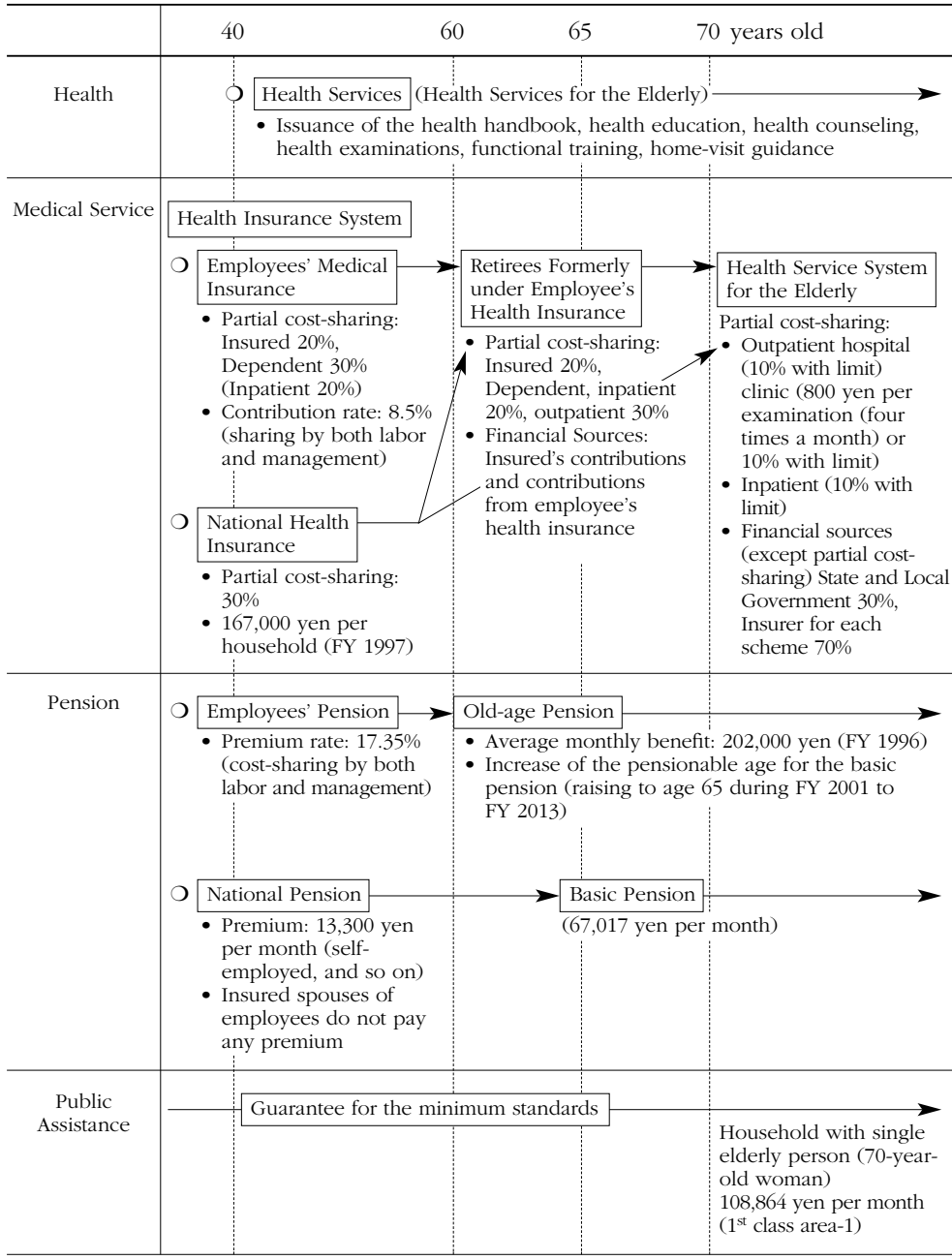
3. The Social Security System for the Elderly

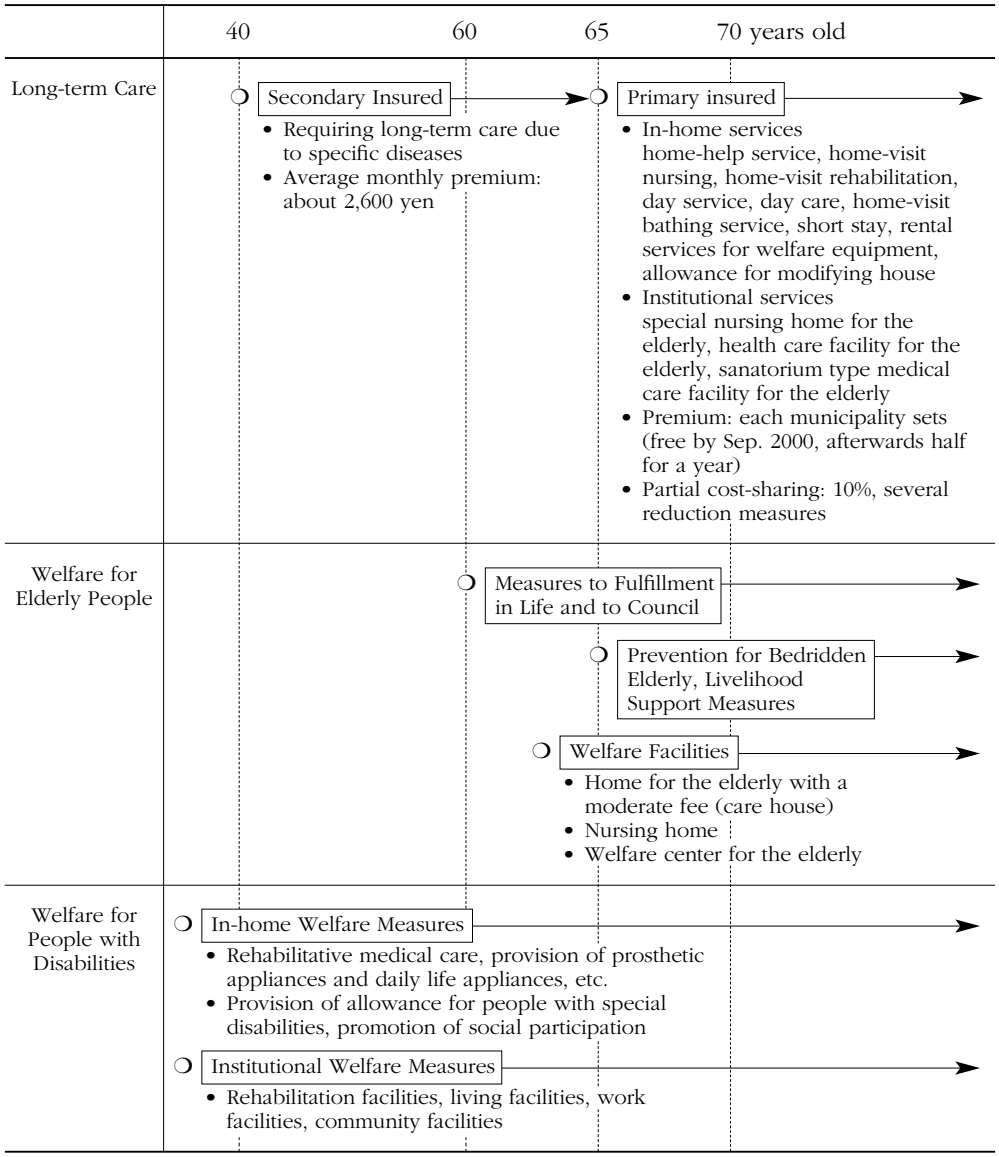
Table 1 shows the structure of the social security system for the elderly, composed of health services, medical services, pension programs, public assistance, long-term care, and welfare for persons with disabilities. There are numerous programs for the elderly and they provide a very wide range of services.

Health maintenance services for the elderly are provided by the local municipalities to residents over 40 years of age. The number of people who receive public health services is large. For example, in 1997 the number of people who participated in health education programs was 11.9 million; those who used health consultation services numbered 8.49 million; those who received basic health examinations, 10.57 million; those who received physical rehabilitation, 2.81 million; and those who received the services of visiting counselors, 1 million. The costs of these services are borne by national and local governments. The national government's expenditure for health services was approximately 27.2 billion yen in 1999. Since employed people take physical examinations through their workplaces, public health services are mainly provided to housewives, the self-employed, and retirees.

In the medical area, about 70% of people over 60 years old are insured by the National Health Insurance System. The medical service program for retired employees, which started in 1984, applies to those between 60 and 70 years old who were previously covered by the employee insurance program. People over 70 years old are covered by the Health and Medical Service Program for the Elderly. The number of people under this program was approximately 13.32

Table 1 Overview of the current security policies toward the elderly




40
60
65
70 years old
Long-term Care
Secondary Insured
• Requiring long-term care due to specific diseases
• Average monthly premium: about 2,600 yen
Primary insured
• In-home services
home-help service, home-visit nursing, home-visit rehabilitation, day service, day care, home-visit bathing service, short stay, rental services for welfare equipment, allowance for modifying house
• Institutional services
special nursing home for the elderly, health care facility for the elderly, sanatorium type medical care facility for the elderly
• Premium: each municipality sets (free by Sep. 2000, afterwards half for a year)
• Partial cost-sharing: 10%, several reduction measures
Welfare for Elderly People
Measures to Fulfillment in Life and to Council
Prevention for Bedridden Elderly, Livelihood Support Measures
Welfare Facilities
• Home for the elderly with a moderate fee (care house)
• Nursing home
• Welfare center for the elderly
Welfare for People with Disabilities
In-home Welfare Measures
• Rehabilitative medical care, provision of prosthetic appliances and daily life appliances, etc.
• Provision of allowance for people with special disabilities, promotion of social participation
Institutional Welfare Measures
• Rehabilitation facilities, living facilities, work facilities, community facilities

million in 1997. One in every ten people in Japan receives medical benefits from the program. Medical expenditure for the elderly was 9.7 trillion yen in 1996 and comprised about one third of the total national medical expenditure. Its annual rate of growth has exceeded that of the national medical expenditure, and thus its share in the total national medical expenditure has been increasing. Medical expenditure per elderly person is 782,000 yen a year, 3.4 times higher than the national average. Medical costs for the elderly are shared by the national and local governments (31%), insurers (64%), and the patients themselves (5%).[2]

As for pension programs, the number of recipients of the basic pension for the elderly under the national pension program was 18.3 million, including "the number 3 insured person" covered by the employees' pension program[3]. The number of recipients of old-age pensions under the employees' pension program was 9.92 million in March 1998. The pension benefits amounted to 34.2 trillion yen in 1997, including physical disability pensions and survivors' pensions. Public pension programs are important in maintaining a secure income for the aged. According to the "Comprehensive Survey of Living Conditions of the People on Health and Welfare 1996" about 60% of the elderly households depended upon the public pension program for their total income. Only 4% of the households received public pensions that amounted to less than 20% of their total income. According to the "Social Security Survey" conducted by the Ministry of Health and Welfare in 1957, before the enactment of the National Pension Law, 83% of the people over 70 years of age depended upon family support for their living. Currently 60% of household income is provided by the public pension, and only 4% comes from stipends from family members. As the public pension programs developed, the elderly households have come to depend upon the pension system as a major source of income.

As to the area of long-term care, the long-term care insurance system provides the elderly with services to mitigate the problems associated with their final years. The Long-term Care Insurance Program started in April 2000, and benefits for the first year are estimated to be 4.3 trillion yen. Most of the benefits are care services that were previously provided by the Welfare Program and the Medical Service Program for the Elderly. The financial sources for long-term care benefits

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[2] These figures are for FY 1996. Contributions from the National Health Insurance System and the Government-Managed Health Insurance System are partly paid out from the national treasury. If this is included in the public funding, the share for public funding is 45%, for the insurers, 50%, and for patients, 5%.

[3] The number 3 insured person is the insured spouse of the number 2 insured person who is a private company worker or public service employee, and so on, between 20 and 60 years old, who depends upon family members for his/her living. Since those family members are covered by the employee pension program or the mutual aid association pension program, the dependent person does not need to pay insurance premiums.

are public funding from the national and local governments (50%), insurance premiums from the working population (33%), and insurance premiums from the elderly (17%), though initially the premium payment by the elderly is reduced by a special measure. The reason the Long-term Care Insurance Program was introduced in a relatively short time is that the health and welfare programs, based upon the Gold Plan, had developed steadily since 1990. In 1997 there were 137,000 home helpers, 9,600 day care centers, special nursing homes with a capacity of 260,000, and health and medical facilities with capacity of 180,000.

Table 1 also shows that public assistance and welfare programs for persons with disabilities are regarded as part of the social security programs for the elderly. Though the social security policies for the elderly usually include pensions, medical services, long-term care, and welfare programs, the roles of public assistance and welfare programs for persons with disabilities are also significant. Of those who receive this assistance, the proportion of people who are elderly is large. In the case of public assistance, the share of the elderly household in the recipients has been increasing every year. In 1997 it was 44%. The percentage of public assistance recipients that are over 60 years old is 44.4%, of which 60% are women. Of people over 70 years old, 1.6 % receive public assistance, which is three times as high as the average for the whole population, 0.6%. A household consisting of a single elderly woman is a typical recipient of public assistance. Furthermore, the elderly households tend to receive public assistance for a long period of time: half of such households receive the assistance for longer than 10 years. The public assistance program, therefore, compensates the income security program for those who lack a pension program or are unable to help themselves. As a result, the elderly have come to depend upon the public assistance program for a long time. It is not exactly what public assistance aimed to do; namely, to help people become financially independent and adjust to a new social structure.

The welfare program for persons with disabilities also provides many elderly people with benefits. According to the 1996 statistics, about 54% of the total recipients of such programs were over 65 years old, and one out of ten people over 70 years old was physically disabled. Therefore, it is not efficient, from an administrative point of view, to separate welfare programs for people with disabilities from welfare programs for the elderly. In reality, part of the welfare program for persons with disabilities overlaps with the welfare program for the elderly. In-home care services under the long-term care insurance program, which started in April 2000, succeeded the services provided under those two separate programs. The new program is a step forward to integrating these policies.

4. Social Security Benefits and Burdens by Age Groups

4.1. Social Service Benefits and Burdens in Terms of an Individual Life Cycle

The Annual Report on Health and Welfare 1998–1999 (Ministry of Health and Welfare, 1999) discussed the present status of social security in Japan by analyzing benefits and burdens. In this article we will discuss the analysis from the viewpoint of an individual life cycle.

Figure 1 shows an outline of benefits and burdens of social services in a life cycle.[4] For benefits, annual amounts are shown for public pensions for the elderly, medical services, child allowance, child care services, and education at elementary, junior high and senior high schools, and universities. For burdens, the amounts to be paid by an individual are shown for average social insurance premiums, taxes, child care, education, and medical services.[5] For the working population aged 20 through 50, the burdens outweigh the benefits. Their direct benefits are mainly limited to medical services. The burdens for the working people get heavier as they get older. People between 50 and 55 pay 1.35 million yen annually in social insurance premiums and direct taxes. In addition, the working population bears the costs of child care and education for their children. However, in this figure, annual costs of 200,000 to 500,000 yen are indicated as the costs borne by the children. The benefits to the children are, in reality, provided to their working parents. The benefits received for a child are 175,000 yen for child allowance, 5.5 million yen for child care services from age 0 through entrance to elementary school, 10 million yen for education for 12 years at elementary, junior, and high schools, and 8 million yen for university education.

As a person gets older, the burden of direct taxes, social insurance premiums, and medical cost is lessened: the amount is reduced from 350,000 yen for

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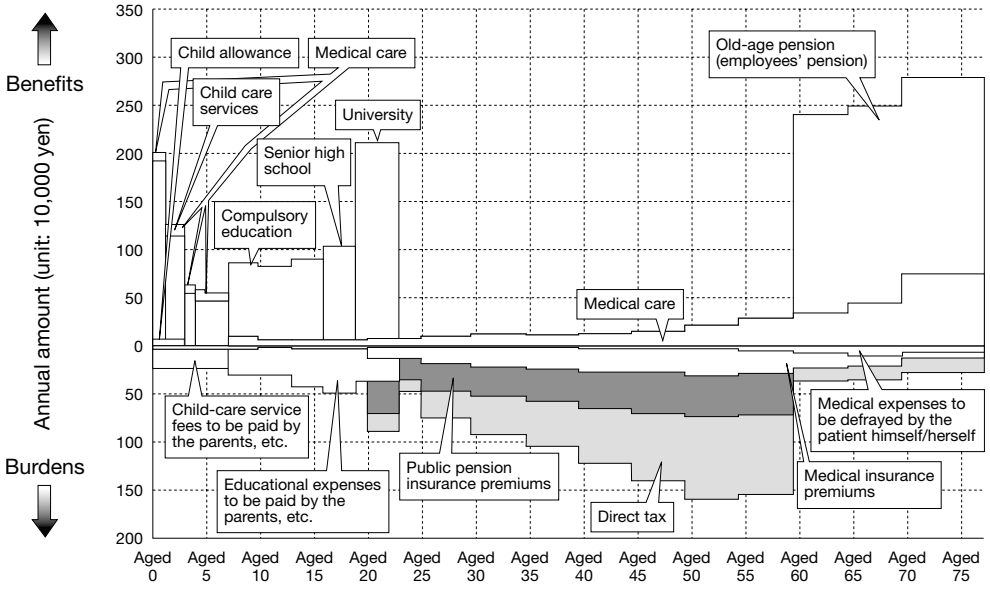
[4] Social services are the services fundamental to the populace's daily living that are provided by public entities. In this article they include health, medical, welfare, and educational services.

[5] The figures for the benefits and burdens cited in Figure 1 are based upon the following calculations. The annual amount of the public pension is calculated by multiplying by 12 the average monthly old-age employee pension (170,000 yen in 1996). The medical benefits, medical insurance premiums, and medical expenses to be defrayed by the patient himself/herself, which are shown by age groups, are estimates made by the Health Insurance Bureau, Ministry of Health and Welfare. The annual amount of child-care service costs and services fees are calculated by multiplying by 12 the average child-care service unit cost and the average utilization fees. For compulsory education and senior high school education, educational expenses are cited from the "FY 1996 Survey on Local Educational Expenses," by the Ministry of Education. Educational expenses paid by parents are cited from the "Basic Survey on Schools (FY 1996)." For public pension insurance premiums and direct taxes, the data were obtained from the results of the "Family Income and Expenditure Survey," by the Statistics Bureau, Management and Coordination Agency. For people over 60 years old, the amount of direct taxes paid by the unemployed elderly household was used.



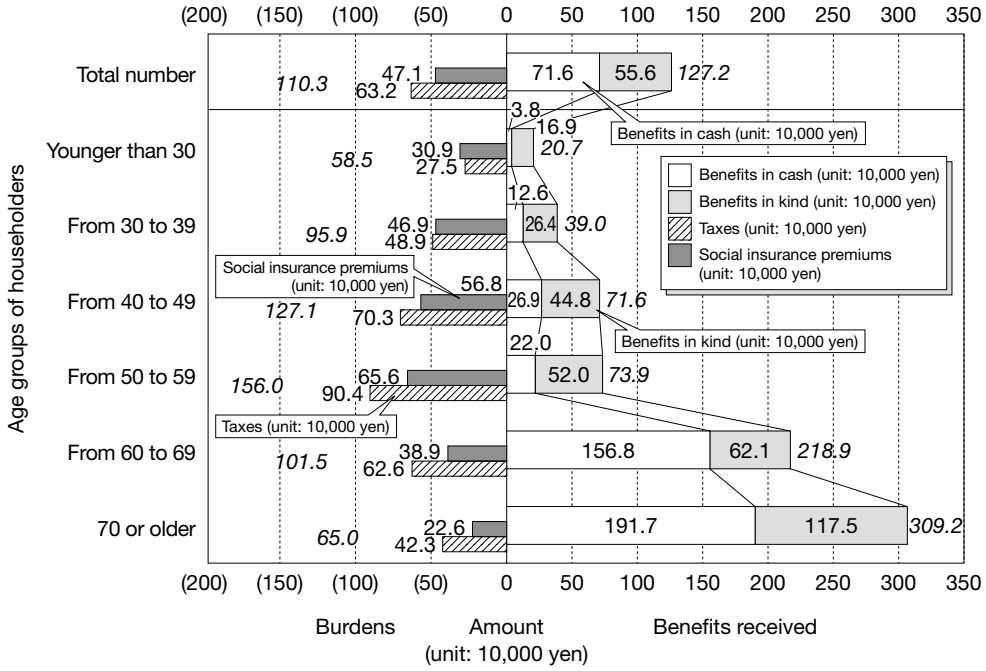
Source: Annual Report on Health and Welfare 1998–1999.

Figure 1 Social service benefits and burdens in a life cycle

someone in their 60s to 250,000 yen after he or she reaches 70. He or she receives annually an old-age employees' pension of 2 million yen, and 760,000 yen as medical benefits. The examination of the balance of burdens and benefits along a life cycle shows that the working generation bears mostly burdens except for the services provided to their children, and that the elderly mainly get benefits.

4.2. Social Security Benefits and Burdens per Household

Figure 2 shows the social security benefits and burdens per household based upon the "Survey on the Redistribution of Income (FY 1996)" A household receives the following social security benefits in a year: 716,000 yen in cash as public pensions and 556,000 yen as benefits in kind such as medical benefits, which amounts to 1.27 million yen in total. In terms of burdens, a household pays 632,000 yen as direct taxes (income tax, individual inhabitant tax, property tax, etc.) and 471,000 yen as social insurance premiums. It should be noted that taxes serve as financial resources for various governmental expenditures besides the payment of social security benefits. The households whose heads are older than 60 years receive far larger benefits than burdens; benefits received by households whose heads are in their 60s are about 1.7 times larger than the average benefit, and those received by the households whose heads are over 70



Source: "Survey on the Redistribution of Income (Fiscal 1996)" by the Research Section, Policy Planning and Evaluation Division, Minister's Secretariat, Ministry of Health and Welfare
Annual Report on Health and Welfare 1998–1999.

Figure 2 Social security benefits and burdens per household

years old are 2.4 times as large. In particular, the medical services provided to households whose heads are 70 years or older are greater than those given to younger households.

If households' initial incomes without social security benefits and burdens are compared with their redistributed incomes after social security benefits, then households whose heads are over 60 years old receive redistributed incomes that are higher than their initial incomes. That is, the social security benefits have an income-increasing effect. The redistribution effect (the ratio of the differentials between initial income and income after redistribution to the initial income) for householders that are 60 to 69 years old is 23.4%, and for householders over 70 years old it is 86.0%. For the age groups younger than 59, the redistribution rate is negative, which means that the amount of taxes and social insurance premiums exceeds the amount of social security benefits. The analysis by age groups of householders, therefore, shows that the income is redistributed from the households of working generations to those of older generations.

4.3. Income Redistribution at the Individual Level

Table 2, based upon tabulation of the data obtained from the aforementioned "Survey on the Redistribution of Income," shows income after redistribution per household member by age groups. In calculating the income per household member, the differences between the living expenses of householders of various ages should be taken into consideration. The first calculation is to determine how much money will be required for living expenses by age groups of household members, based on the criteria for the calculation of living expenses by age groups to be used for the provision of public assistance. Then the distribution ratios of the household income are calculated for each age group of household members. Based upon the calculation results, the income per household member will be estimated. Medical expenses, however, are calculated as an individual income.

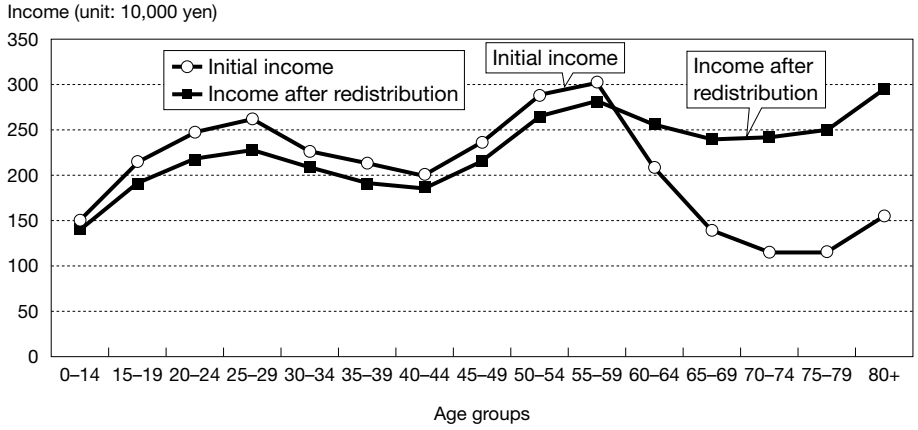
This calculation shows that the initial per-capita income reaches its peak while the household members are in their fifties, and rapidly declines after they become 60. If the average of all the age groups is set to be 100, the per-capita income is 66 for the groups aged 65 to 69, 53 for the groups aged 70 to 74, and 54 for the groups aged 75 to 79. For income after redistribution the number will improve dramatically. If the average of all the age groups is set to be 100, the per-capita income after redistribution is 111 for the group aged 65 to 69, 115 for the group aged 70 to 74, and 117 for the group aged 75 to 79. The numbers are larger than the average by more than 10%. In contrast, for the groups aged 30 to 34 the per-capita income after redistribution is 97, 90 for the group aged 35 to 39, and 87 for the group aged 40 to 44. Not only are these numbers lower than the average, they are lower than those for the older generation. For older age groups, the per-capita income rises after redistribution due to pensions

Table 2 Income redistribution by age groups of householders (based on the survey conducted in 1996)

	Initial income (unit: 10,000 yen)	Income after redistribution (unit: 10,000 yen)	Redistribution coefficient
Total	601.1	618.0	2.8%
Younger than 30	390.9	353.1	–9.7%
30–39	591.7	534.8	–9.6%
40–49	721.7	666.3	–7.7%
50–59	845.4	763.2	–9.7%
60–69	501.7	619.0	23.4%
70 or older	284.1	528.3	86.0%

Source: "Survey on the Redistribution of Income (Fiscal 1996)" by the Research Section, Policy Planning and Evaluation Division, Minister's Secretariat, Ministry of Health and Welfare Annual Report on Health and Welfare 1998–1999.

Note: The redistribution coefficient is calculated as follows: (income after redistribution–initial income)/initial income × 100)



Source: "Comprehensive Study about Japan's Social Security Level" conducted in fiscal 1998 as Health Science Research (Policy Research)
Annual Report on Health and Welfare 1998–1999.

Figure 3 Per-capita income by age groups

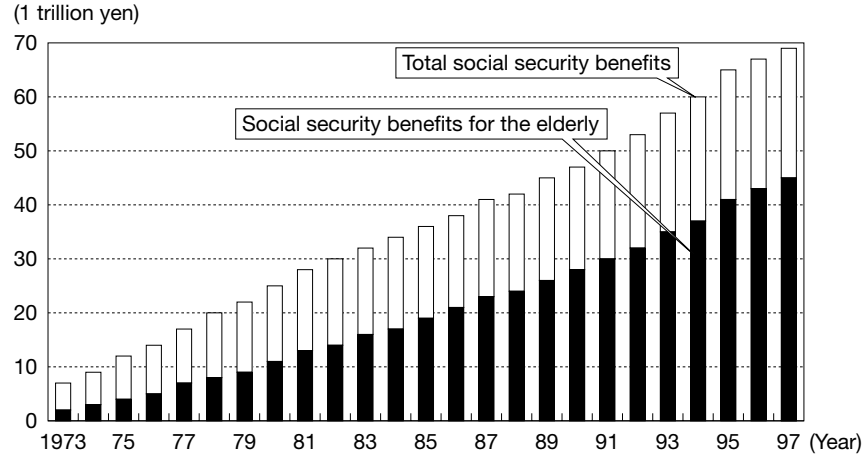
and medical benefits. But for the younger generation in their 30s and early 40s, the per-capita income is low, reflecting the fact that these groups have to spend more on living expenses for raising their children. In addition, their income is reduced by burdens imposed on them, including taxes and social insurance premiums.

Figure 3 shows the redistribution effect of social security on the elderly generation. What is the effect on the older generation compared to the effect on the working generations? The working generations share the burdens of social insurance premiums and taxes, which provide financial resources for pensions and medical expenses, while they work as central labor power and have to bear the costs of child rearing or purchasing houses. The fact that the elderly generations tend to receive more after income redistribution through the social security systems than the younger working generations implies that the income transfer between the generations is too large. It should also be noticed that medical benefits have a larger redistribution effect than pensions.

5. Problems with the Social Security System for the Elderly

5.1. Increase in the Social Security Benefits for the Elderly

We have discussed the history of the social security policies, the current status of policies, and the differences in social security benefits and burdens between different age groups. Generally speaking, the government has emphasized the social security



Source: "Social Security Expenditure" by the National Institute of Population and Social Security Research.

Figure 4 Changes in the total social security benefits and the social security benefits for the elderly

policies, especially those for the elderly, since the late 1980s. One indicator of the trend is the increase in volume of the social security benefits for the elderly. In FY 1997 social security benefits were 45.1 trillion yen. The number is equivalent to the amount of the budget for the general expenditure in the general account that is spent by the government for administering policies. The annual benefits per capita for the age group older than 65 were 2.3 million yen. The share of the social security benefits for the elderly in the total social security benefits was approximately 65%, two-thirds of the total. Since the 1980s, 80% of the increase in social security benefits has been generated by the growth of benefits for the elderly. In 1973, the so-called "First Year of Welfare," social security benefits for the elderly were 1.5 trillion yen, only 25% of the total social security benefits. In the next 24 years they grew 29 times in value and their share of the total benefits increased 2.6 times.

One of the factors which contributed to the rapid increase is the growth of the aging population. However, during this period the rate of growth of the population over 65 has increased by only a factor of 1.8. Therefore the main reason for the dramatic increase in expenditure is the progress in social security policies for the elderly, such as the increased levels of pensions in accordance with wage and price indexes, the continuing high level of old-age employee's pensions, which are higher than those in European countries or the United States, and good medical services with free access and low cost-sharing. Since 1990, under the former and New Gold Plans, both national and local governments have given budgetary priority to building a foundation for the health and welfare of the elderly. The

period from the 1980s to the present is characterized by progressive government social security policies in the areas of pensions, medical services, and welfare.

5.2. Reconsideration of Burdens and Adjustment of the Social Security System

The biggest problem, however, is the burden placed on financial resources resulting from the increased social security benefits for the elderly. The three major tasks pertaining to social security in recent years, namely, the revision of the pension system, the revision of the medical insurance system, and the creation of a long-term care insurance program, are responses to the problem of financial resources for the social security system for the elderly.

Since the 1990s the amount spent on benefits for the elderly has grown by 2–2.5 trillion yen every year. Of the total social security benefits for the elderly, 76% is for pension insurance benefits, 21% is for medical services, and 3% is for welfare services. Though these services are partly supported by pensions and medical insurance premiums paid by the elderly people, the current system is sustained with taxes and social insurance premiums paid by the working generations. The increase in the benefits for the elderly leads to the increase of the burden of social insurance premiums and taxes on the working generation, especially "good cost-sharing groups."[6] In the 1990s the average annual growth of social security benefits for the elderly was 7%, while that of the household income of the working generations was 2%. As seen in Part 4, the analysis of per-capita incomes (though based on certain assumptions) shows that the income levels of the elderly are higher than those of the working generations that bear the burdens of taxes and social insurance premiums. Thus, there is an excessive income transfer from the working generations to the elderly. The current situation will call the basic concept of joint responsibility and inter-generational responsibility into question, and eventually will undermine the social security system.

As Noriyuki Takayama (2000, p. 184) points out, we have reached a stage "to share burdens" now that the time "to share benefits" is over. The older generations, traditionally the recipients of benefits, also have to bear a fair share of the burden for social security benefits. It is necessary to reevaluate and reexamine the benefit levels of various programs and the ways of financing those programs, including an option of introducing consumption taxes.

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[6] As for the medical services for the elderly, according to Seiritsu Ogura, the Elderly Insurance System would cost an additional 195 billion yen for the employees' insurance and 175.5 billion yen for the national and public insurance every year. On the other hand, the cost for the national health insurance program would decrease by 130 billion yen, and the cost sharing by the aged would decrease by 240 billion yen. Seiritsu Ogura, "Shift of financial sources to the National Health Insurance and Consumption Tax," *Nihon Keizai Shimbun*, 16 February, 2000.

Secondly, adjustment among different social security programs has to be made. As Table 1 shows, social security programs, though with different objectives, create overlapping benefits for the elderly. For example, they receive both pension benefits and benefits from medical and long-term insurance. When they are hospitalized for a long period or are under long-term care in facilities covered by long-term care insurance, then medical insurance or long-term care insurance takes care of not only their medical expenses but also their living expenses. In addition, their public pension continues to be provided. The Horiki lawsuit, involving Article 25 of the Constitution, was concerned with the prohibition of overlapping provisions for pensions for the physically disabled and child care. Under the current social security system an elderly person could receive an old age pension of 200,000 yen each month in addition to 370,000 yen in medical benefits (while staying in a long-term care facility) by the medical insurance coverage. It would not be a problem if the public pension were based upon the reserve fund of the individual's savings. However, under the current pension system, which is based upon intergenerational responsibility, it is an example of excessive provision of benefits. The system, which would allow a person to be left with a monthly pension of 200,000 yen, could cause "a moral hazard" of abuse of the system.

As long-term care insurance is introduced, adjustment among different programs should be made. It is necessary to make the social security system more efficient and coordinate the benefit programs in order to reduce the burdens on the working generations.

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