

Social Security
In
Japan

March 2001

Preface

This booklet aims to provide foreign researchers with an introductory explanation of aspects of the social security system in Japan: pensions, health insurance, public assistance, long-term care and employment insurance. The booklet was first published in March 2000, and this is the updated 2001 version. The booklet is mostly descriptive and kept at a minimum level in outlining the current system and the challenges facing it. Researchers are advised to refer to further readings at the end of this booklet. As Japan's social security system is undergoing a series of reforms, we will update this publication from time to time.



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Chapter 1

Overview of Social Security System

I. General Characteristics

1. Social security

As with other countries, the source of social security in Japan could be found in charity-oriented communal activities for the poor in a pre-modern era. In the modern era, while legislations such as *Indigent Person's Relief Regulation* (1874) and *Poor Relief Law* (1932)¹ were enacted, the modern social security system based on the state's responsibility in sharing and mitigating social risk of the population did not start until after the World War II with the inclusion in the *Constitution* of the Article 25:

“(1) All people shall have the right to maintain the minimum standards of wholesome and cultured living. (2)The State must make efforts to promote and expand social welfare, social security and public health services to cover every aspect of the life of the people”.

Starting with the urgent need to relieve the war-stricken people, the system of “social security” has gradually extended its reach. The term “social security” means in Japan a range of social policy that is the task of a welfare state, from income security to the public health. Table 1.1 shows the list of major schemes defined as social security in Japan. The main organ responsible for overseeing and carrying out these schemes is the Ministry of Health, Labour and Welfare (MHLW). Table 1.2 shows its organization chart.

2. Universal health insurance and universal pension

The year 1961 was memorable in the history of Japanese social security. Two laws for universal health insurance and pension were enacted in 1958 and 1959, respectively, and enforced in 1961. They have become the two main pillars of Japanese social security system. Together with the *Public Assistance Law* (1946) and the *Employment Insurance Law* (1974), they are the main institutions of social policy to mitigate the risk of sickness, accidents, unemployment and old age.

¹ The English names of law and schemes are in consistent with official documents, in order to avoid the confusion.

Table 1.1 Schemes of Social Security

Health insurance	
Management of health care delivery system	
Prevention of diseases such as TB, AIDS and cancer	
Long-term care insurance	
Public pension	
Income assistance	<i>(Public assistance)*</i>
Services for the elderly	<i>(Welfare for the elderly)*</i>
Assistance for the disabled	<i>(Welfare for the disabled)*</i>
Benefits for children	<i>(Welfare for children)*</i>
Public health	
Employment insurance	
Work-related accident insurance	

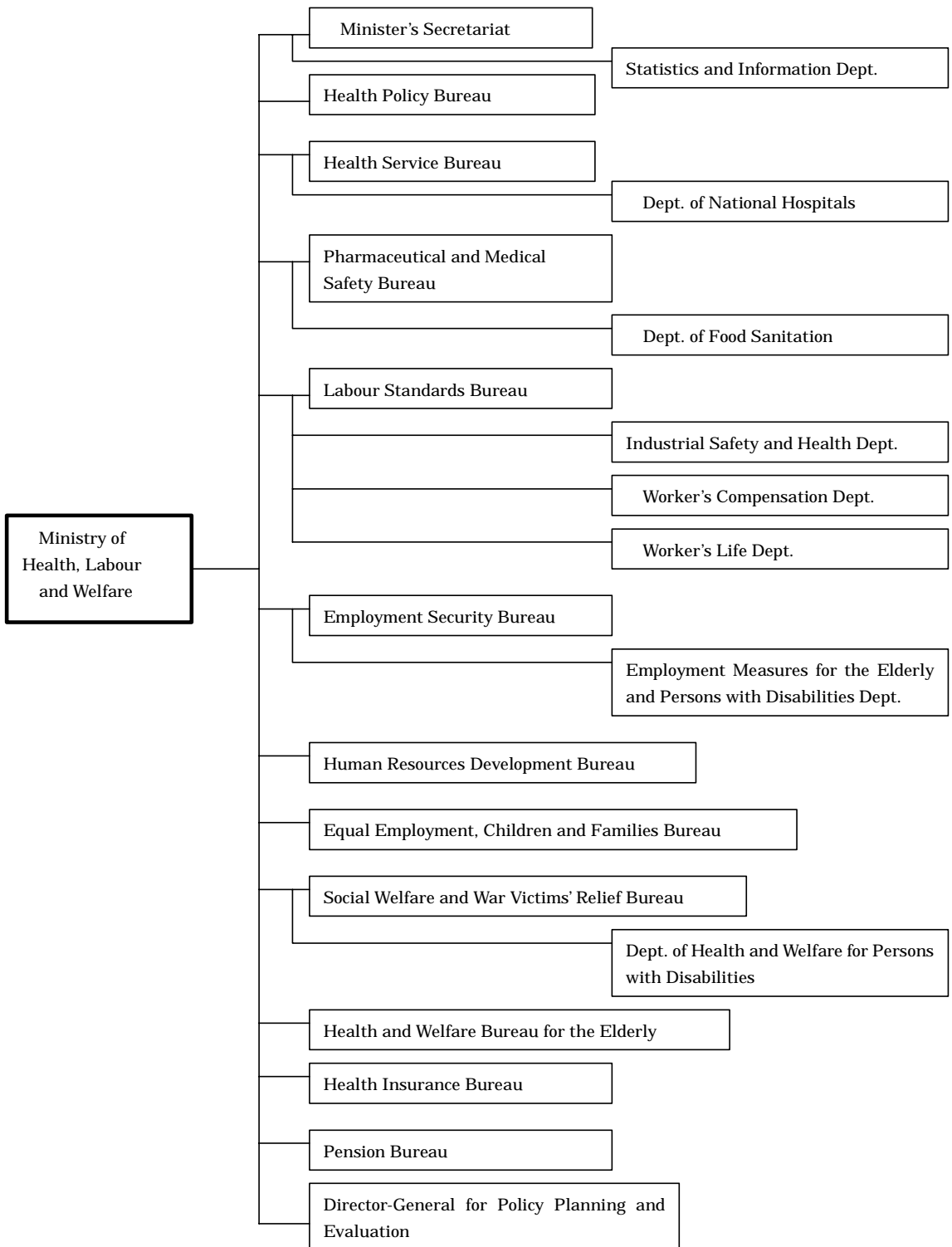
* Terms in italics are official ones used by the government

3. Social insurance and tax

Social security systems such as those for health care, long-term care, public pension, employment and work-related accident take the form of social insurance. The public insurance system provides in-cash and in-kind benefits to insured persons (and their family) in case of downfalls within their life cycle. The participation for these schemes is mandatory to all citizens and their employers in case they are employed. The contribution to the schemes is shared by all insured, in most cases, according to their ability to pay (income). Thus, the function of social insurance is to share the risk among insured persons, and at the same time, to redistribute income among them.

On the other hand, measures identified as social welfare, such as public assistance (meaning income maintenance for the poor, in Japan) and services and benefits for the elderly, children and the disabled are mostly paid out of the general budget of the government (tax). There is a continuing debate, especially on the pension schemes, between those who claim converting some of the insurance-based schemes to the tax-based schemes and those who prefer to maintain the link between the contribution and benefit through an insurance system.

Table 1.2 Organization Chart of the Ministry of Health, Labor and Welfare



4. In-cash and in-kind assistance

Kinds of benefits provided through the social security system are either in-kind or in-cash. Table 1.3 lists major types of benefits by in-kind/in-cash classification.

Table 1.3 Major Types of Service by In-kind or In-cash Classification

To whom	In-kind	In-cash
The sick	Health care services	
The elderly	At-home services Institutionalized services	Assistance for households which take care of its own elderly (limited) Old-age and survivor's pension
The disabled	Institutional service for the disabled	Disability pension
The children	Institutions for special children	Child allowance Child rearing allowance for single-mothers
The poor	Health care services	Livelihood (income) support
The unemployed		Unemployment benefits

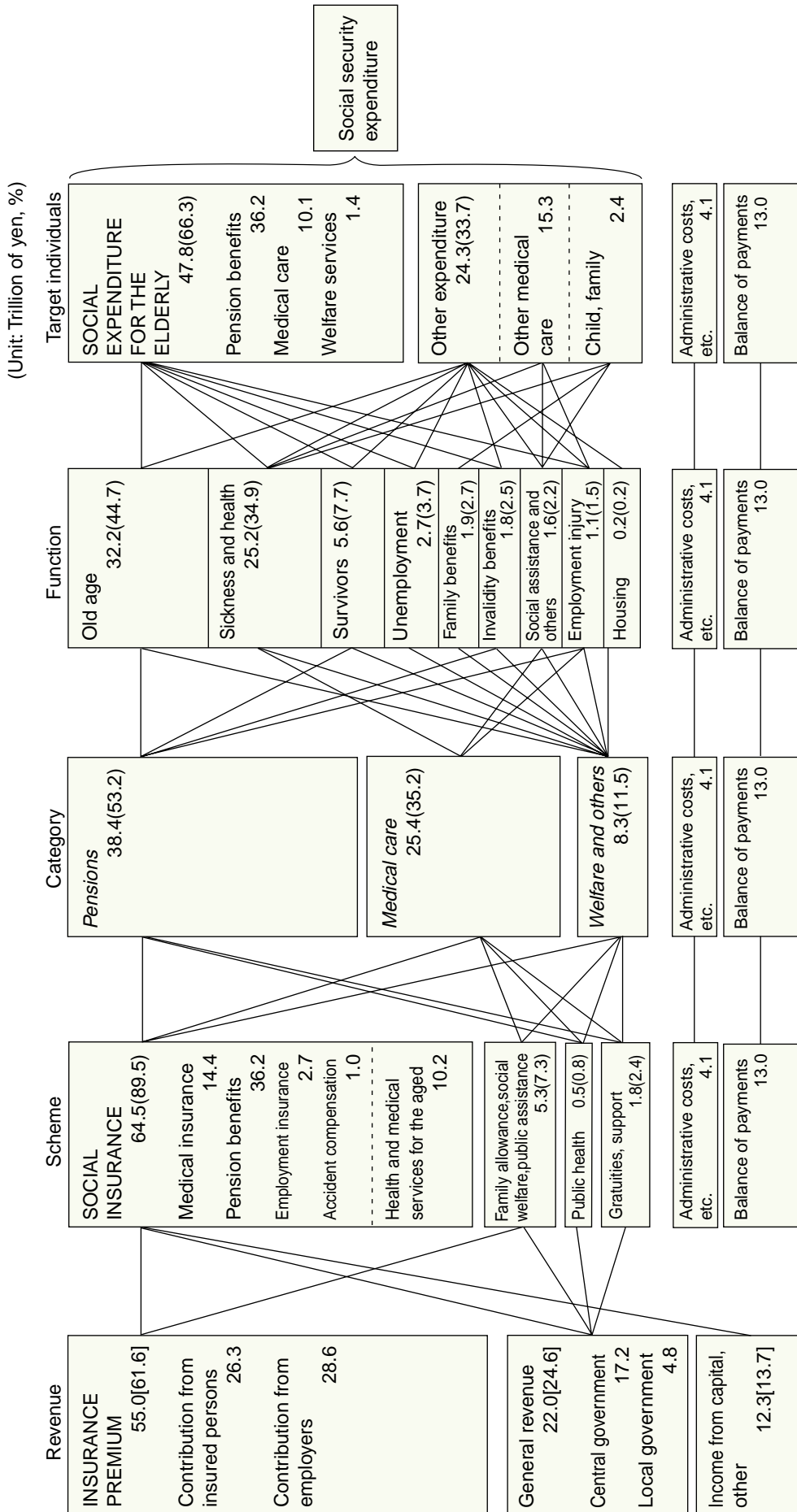
5. Service providers

Service providers of social security, such as hospitals and clinics for the health care, day-care centers and institutions for the elderly long-term care, rehabilitation centers and support centers for the disabled, and so forth, can be both public or private. For example, there are public hospitals and private hospitals, and from the view point of the user, there is no difference. They both operate under the supervision of the Ministry of Health, Labour and Welfare (MHLW) and the prefectures.

II. Revenues and Expenditure of the Social Security

Figure 1.1 shows a breakdown of social security revenue and expenditure as defined by the International Labor Organization. Insurance premium accounts for 60% of the total revenue and government contributions and others for the rest. The expenditure for the public pension takes up nearly a half of the entire expenditure, and for the health insurance, a little more than one third.

Figure 1.1 Revenue and Expenditure of Social Security: Fiscal Year 1998



- Notes:
1. "Child, family" refers to medical insurance in the form of a lump sum maternity allowance and child-rearing allowance, employment insurance in the form of parent leave allowance, day-care facilities administration costs and single parent family and disabled child allowance.
 2. FY1998 social security revenues amounted to 89.2 trillion yen (excluding transfer from other systems). The figure in square brackets represents [] the ratio of social security revenues total.
 3. FY1998 social security expenditure amounted to 72.1 trillion yen. The figure in parentheses represents () the ratio of social security expenditure total.
 4. Arrows have been omitted from "Revenue" to "Administrative costs," and "Balance of payments" in "Scheme."

Note: **Figure 1.1 Revenue and Expenditure of Social Security: Fiscal Year 1998**
: (units: hundreds of millions of yen, figures in brackets, %)

FY1998 social security revenue amounted to 89.2 trillion yen (excluding transfer from other systems). The figure in square brackets represents the ratio to the total social security revenue.

FY1998 social security expenditure amounted to 72.1 trillion yen. The figure in parentheses represents the ratio to the total social security expenditure. Arrows to “Administrative costs” and “Balance” in the Scheme column are omitted.

Chapter 2

Pensions

I. General Characteristics

1. Three-tiers of pension system

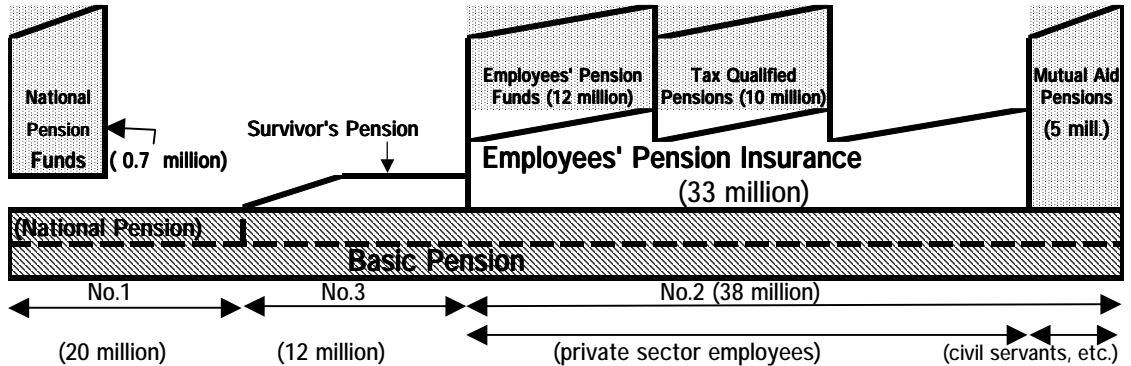
The Japanese pension system is multi-tiered, consisting of public and private pension schemes (Fig.2.1). In this booklet, the distinction between public and private pensions is defined to be whether the insurer of pensions is the government or not. The first tier is the *Basic Pension (Kiso Nenkin)*, which provides the flat rate basic pension of a universal coverage. As a non-income-related pension, it aims to provide a basic income guarantee for the old age, and the participation is mandatory to all residents. The second tier, the *Employees' Pension Insurance (Kose Nenkin Hoken)* covers the most of employees and provides an income-related payment. It is mandatory to all firms over a certain size, and premium is shared by employers and employees. The first and the second tier pensions are both operated by the government and thus are public. The third tier is an optional scheme. It is provided either by private firms (employers) for their employees, or by collective national pension funds for the self-employed with the government as the insurer. The Employees' Pension Funds is operated by employers, but has a large portion of the Employees' Pension Insurance and thus has a quasi-public character. On top of the three tiers, purely private, individual-based pensions, such as those offered by the life insurance companies, provide the additional coverage for those who wish to purchase the plans.

The schemes in the first and the second tiers for employees are jointly operated and a single contribution rate covers contributions for both schemes. Thus, in many cases, the term "*Employees' Pension Insurance*" refers to both of them jointly. The Employees' Pension Insurance covers both employees and their spouses (Categories No.2 and No.3. See Fig 2.1).

Similarly, the Basic Pension for the self-employed, farmers and other non-employed (Category No.1) is called the *National Pension (Kokumin Nenkin)*, which are operated, by municipalities (and thus called regional-based pension). The civil servants have a separate scheme on their own called *Mutual Aid Pensions*, which covers both the *Basic Pension* portion and the income-related portion. Thus, the entire adult population, in principle, is

insured either by the *Employees' Pension Insurance*, the *National Pension* or the *Mutual Aid Pensions*.

Fig 2.1 Pension System



Note: Numbers in () are number of subscribers. No.1, 2, & 3 denote categories of subscribers: No.1 is self-employed, farmers, students, etc., No.2 is employees, and No.3 is spouse of No.2. (All numbers are as of March 1999)
Slopes in the diagram indicate income-related pension schemes.
Source: Kose Hakusho. MHW. 2000

2. Universality of the basic pension

The coverage of the Basic Pension is universal, i.e. it extends to all residents 20 years old or above in Japan including foreigners. For the *National Pension*, the eligibility to receive pensions requires a minimum of 25 years of premium payment.

3. Mixture of public and private schemes

The insurer of the *National Pension* and the *Employees' Pension Insurance* is the government. They form the two pillars of Japan's public pension system. According to a survey, more than 60% of the elderly households entirely depend on the public pension for their income.

Other schemes are occupational pensions. The *Employees' Pension Funds*, the *Tax Qualified Pensions* and the *Mutual Aid Pensions*, the third tier for the Category No.2 insurers (employees), are run by each private firm or the government in the case of the Mutual Aid Pensions where the government is the employer, and not all of the employees are covered by them. The *National Pension Funds*, which provide the third tier coverage for the Category 1, are run by local and occupational funds. It is also optional, and only a fraction of the Category 1 is participating.

4. Insurance premium

For the *Employee's Pension Insurance* (the public pension for the Category No.2, i.e. employees), the premium is paid by both employees and employers, and is set at a fixed rate of the salary. The same rate covers the premium for his/her spouse who does not make more than ¥1.3 million/year (called the No.3 Category). For the *National Pension* (the public pension for the Category No.1, the self-employed), the premium is paid by the insured only, and is a flat rate for all. Both the Category No.1 and his/her spouse, if he/she is not working as employees, have to pay the premium.

The premium for occupational pensions differs from scheme to scheme, but mostly is paid by the employers for the Category No.2 and by the insured for the Category No.1.

5. Government subsidy for the public pensions

For the first tier (*Basic Pension*), one third of the benefits and all of administrative costs are paid from the general budget of the government. This rate is planned to increase to one half by the year 2004. For the second tier (*Employees' Pension Insurance*) and mutual aid association pensions for central and local civil servants, the administrative costs are paid by the central government. For the third tier, there is no subsidy from the government.

6. Mixed retirement package

Japanese firms traditionally offered to its employees a retirement allowance in the form of a one-time lump-sum payment. Since the introduction of public pension schemes, firms started to offer private pensions to attract employees. Currently, most firms provide a mixture of a lump-sum payment and a pension scheme. Since the two types of scheme are interchangeable in many instances, the entire retirement package is seen as the income security for the retired.

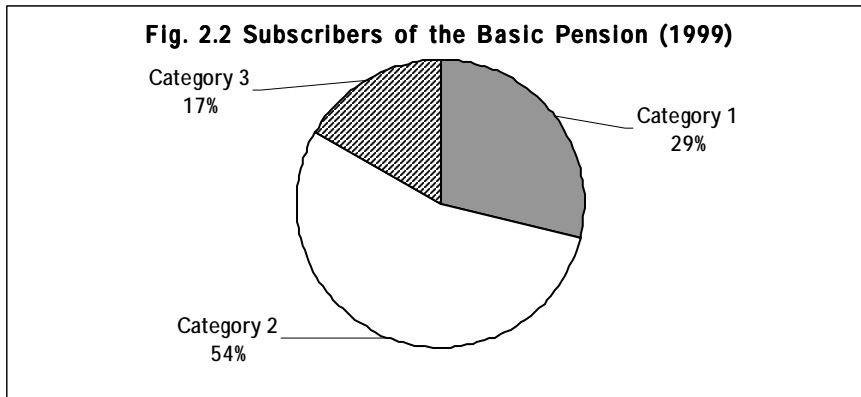
7. Mostly Defined-Benefit

The *National Pension*, the *Employees' Pension Insurance*, and other public and occupational schemes are all defined-benefit schemes. However, a law to introduce a Defined-Contribution scheme in the private sector has just passed in 2001, and will be introduced shortly.

II. Types of Pension Scheme

1. *The National Pension*

As described above, all residents in Japan between ages of 20 to 60 are eligible and required to become a subscriber of the *Basic Pension*. Whereas employees automatically enroll in the *Basic Pension* when they subscribe to the *Employees' Pension Insurance*, the *National Pension* is for those who are not employees. A fixed amount (¥13,300 per month in 2001) is levied on each subscriber as a premium. However, low-income persons (about 19.9% of all No.1 subscribers in 1998) and non-working spouses of employees are exempt from paying premiums, partially or entirely. Current benefits are paid out of currently collected premiums (pay-as-you-go system), but as much as one third (to be raised to one half by 2004) of the benefits are subsidized from the general budget of the government. The benefit is flat rate to all, and the scheme is a defined-benefit scheme.



Category 1: All residents who are not Category 2 or 3, i.e. self-employed, farmers, students, etc.

Category 2: All employed persons whose workplace has more than 5 employees

Category 3: Non-working spouses of Category 2

Source: MHW, 2000

Currently, 1.4%¹ of the eligible persons fail to participate in the *Basic Pension*, and 96% of all persons aged 60 and over receive the *Basic Pension*, thus its scheme has achieved near perfect universality. The average monthly benefits for the old age are ¥49,000.

¹ One minus the number of subscribers (70.50 million) divided by population aged from 20 to 59 (71.47 million).

2. *The Employees' Pension Insurance*

The *Employees' Pension Insurance* forms the core of the income security for retirees. All workplaces with more than 5 employees and their employers are required to participate in this scheme. Both employers and employees contribute 8.675%² of employee's monthly salary as premiums (including a premium for the *National Pension*), and the pension benefit is income-related. There is no discount system for low-income persons/household (or his/her employer), but employers of those who are on maternity leave (up to 1 year) are exempt from paying a premium³. However, the ceiling of the premium is set at the premium rate multiplied by ¥620,000 (the maximum category of monthly salary). The benefits are related to the employee's salary. The average monthly benefit for the old age is ¥177,000, which amounts to 56% of the average monthly salary of subscribers (1999).

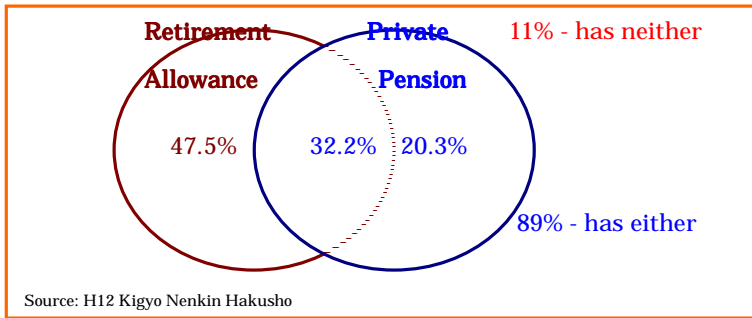
3. Corporate pensions and retirement allowance

90% of all Japanese firms offer retirement packages for their employees. A retirement package can be either a one-time lump-sum retirement allowance, or a life-long or limited duration pension, or both. In 1997, about a half (52.5%) of firms with some kind of retirement package offered a pension scheme, while nearly 90% provided a lump-sum allowance. Even though the pension is gradually spreading its share, the traditional style of the lump-sum allowance is still the main stream and most employees choose to take a part or the entire amount of the retirement money as the lump-sum payment. Thus, the public pension, private pension and lump-sum retirement allowance, all together make up the total income maintenance support for a retiree.

² The premium rate applies only to monthly salary, and the premium rate for seasonal bonus payments (usually 3.5 months worth of salary) is 0.1% shared equally between employers and employees.

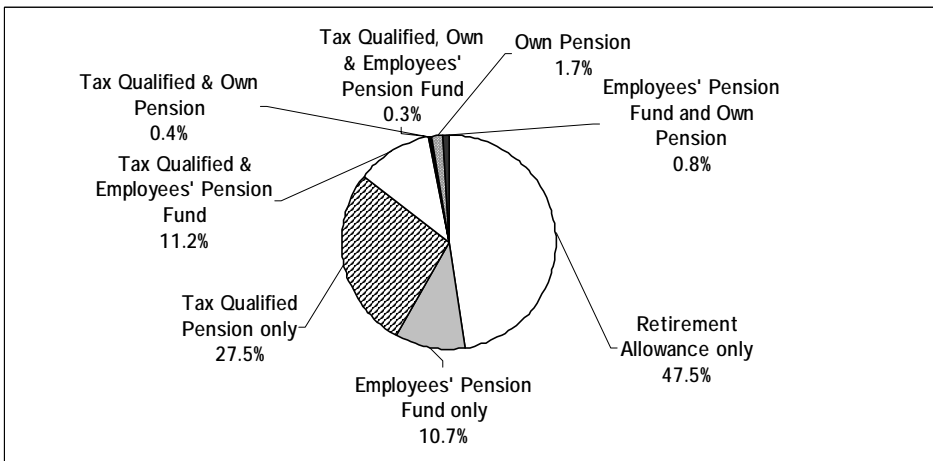
³ Employees who are on maternity leave typically do not receive salary, except unemployment benefits (40% of their pay), and thus do not need to pay a premium. The duration of maternity leave is counted as insured months in calculating a benefit level.

Fig. 2.3 Share of firms with retirement allowance scheme and/or private pension scheme (1998)



There are three types of corporate pension schemes: 1) the *Employees' Pension Fund*, 2) the *Tax (Exempt) Qualified Pension* (scheduled to be phased out in 10 years), and 3) each firm's individual pension scheme. The breakdown of different retirement packages is shown in Fig. 2.4. In addition, a defined-contribution private pension is now under the debate in the Diet, and is likely to pass in near future.

Fig. 2.4 Share of different private pensions by number of firms (1997)



Source: "H11 Kigyo Nenkin Hakusho"

(a) The Employees' Pension Fund

Firms of more than 500 employees are allowed to set up an *Employees' Pension Fund*. Currently, about one third (36%) of all employees participate in this scheme. A fund is set up to top off the public pension to ensure a higher level of benefits, and is based on the

contributions from both employers and employees of 1.6 to 1.9% each of the employee's salary. The *Employees' Pension Insurance* and the *Employees' Pension Fund* are closely related, and some portions of the *Insurance* are managed by the *Fund* on its behalf. Thus, even though the *Fund* is a corporate pension scheme, it has a quasi-public nature and enjoys a tax-favored treatment, but at the same time, is regulated closely by the government.

(b) *The Tax (exempt) Qualified Pension*

Another type of private pension is the *Tax Qualified Pension* scheme. Under this scheme, employers are allowed to exempt its contributions from corporate tax. About one third (31%) of all employees are currently participating in this scheme. Compared to the *Fund*, this scheme is fairly free from regulations of the government, and is the second most popular form of private retirement package next to the lump-sum retirement allowance. Most of the pensions under this scheme are fixed-term (typically 10 years), different from other pensions with a life-long term. Average monthly benefit is ¥58,499.

However, this scheme is scheduled to be phased out in 10 years.

(c) One-time lump-sum retirement allowance

One-time lump-sum allowance is still the most preferred form of retirement money, as seen from the fact that 47.5% of total workplaces have only this type of retirement benefits. The benefit level depends on each workplace, but is usually 39 to 46 months worth of monthly salary for employees, who have worked a full-term (38 years for college graduates, and 42 years for high-school graduates).

III. Current Issues of Pension System

1. Financial crisis of public pension

Aggravated by rapid aging, low rate of economic growth, and near-zero interest rates, the *National Pension* and the *Employees' Pension Insurance* are facing a difficulty to secure enough funds to meet the future requirements for pension payments. Various reforms to restrain the payments, including cutting back of future benefits and raising of premiums have taken place in order not to put too much burden on the future generations. Delaying of the pensionable age for the *Employees' Pension Insurance* from 60 to 65 years old gradually is another example of the reform. In addition, an increase in the government subsidy seems inevitable, but securing financial sources (for example, an increase in the consumption tax) has been politically difficult.

2. Non-compliance and default in the *National Pension*

One of the biggest problems of the *National Pension* is that there are a growing number of eligible and required persons who have not become participants or have not paid the premium in full. According to the last official survey (1998), 4.9% of would-be participants of the *National Pension* have not participated. However, there is no non-compliance in Category No.2, as they automatically become subscribers when they become subscribers of the *Employees' Pension Insurance*, so that overall non-compliance rate is 1 to 2%.

Even larger problem is the default rate of premiums among the Category No.1 subscribers. In 1998, the ratio of monthly premiums actually paid to fully expected premiums was 76.6%. In addition, 19.9% of the Category No.1 is legally exempt from paying the premium, making the financial situation of the *National Pension* even worse. Every effort is being made at central, prefectural, and municipal government levels to decrease the default rate. The default and non-compliance of the *National Pension* is worse in younger generations.

3. Introduction of the defined-contribution scheme

In the private sector, firms are realizing a huge burden of future pension payments, which is now labeled as liabilities under the new accounting system. Together with

low-returns on their funds due to the recession of the economy, an interest has been increasing in converting their defined-benefit pension schemes to defined-contribution schemes, in which future payments are related to the investment performance of funds, as opposed to the current system in which future payments are fixed at the beginning. Recently, a new law for the Defined-Contribution corporate pensions has passed and such schemes will be introduced.

4. Changing employment patterns and life cycles

Another motivation behind the introduction of a defined-contribution pension is the changing employment patterns. The traditional Japanese pattern of a life-long employment has gradually been disintegrating. Thus, firm oriented pension schemes based on a long-term employment at a fixed workplace must be changed to fit the new situation. One of the advantages of the defined-contribution pension, mentioned above, is that it is portable from a firm to another.

Outline of the Pension System

		Public Pension	
		Basic Pension	Employees' Pension Insurance
Type of Insurance		Basic 1st Tier Mandatory	Supplemental 2nd Tier Mandatory
Insurer		Government	Government
Eligible persons		All residents (categories 1-3)	Category 2 private-sector workers under 65 who work at workplaces with more than 5
Number of subscribers (millions)	①	70.50	32.96
% to all residents(20-59years)	②/pop	99%	46%
% to all eligible persons	②/①	99%	100%
Number of current pension recipients	③	19.09	8.22
% to all subscribers	③/②	27%	25%
% to all residents (60&older)	③/pop	66%	29%
Premium Type		Flat rate	Fixed % of salary
Average contribution (% to salary) Employee		—	8.68%
Employer		None	8.68%
Average contribution (¥)	⑤	¥13,300 (for Category 1 & 2), ¥0 (Cat.3)	(including premium for National Pension)
Average monthly salary of subscribers	⑥	Not Available	¥315,000
Tax exemption Employee		Exempt	Exempt
Employer		Exempt	Exempt
% of subscribers who are exempt (1998)		5.7%	0%
Default rate (as % of expected premium) (1998)		23.4%	1.6%(1997)
Benefit (Old Age) Type		Flat rate	Income-related
Calculation method		¥804,200 x ((insured months + 1/3 x exempt months)/480)	(Monthly income * 0.71% * insured months * slide rate)+ dependants allowance
Average monthly benefits	⑦	¥49,000	¥177,000
Replacement ratio (average)	⑦/⑥	Not available	56.2%
Starting age	years	65	65
Benefits (Disability)		Flat rate	Income-related
Calculation method		¥1,005,300 (1st degree) or ¥804,200(2nd degree) + dependants allowance	1st&2nd degree: (Monthly income * 0.71% * insured months * slide rate)+ dependants allowance
Average monthly benefits (2000)		¥76,888	¥106,116
Benefits (Widow/Widower)		Flat rate	Income-related
Calculation method		¥804,200 + children allowance for wives w/children	3/4 of old age pension for spouse or close family
Avg monthly benefits (2000)		¥83,444	¥91,470

Source:Shakai Hoshō Tokai Nenpo (2000), Kose Hakusho (2000), MHW HP, Kigyo Nenkin Hakusho (2000)

(All numbers are as of March 1999, unless otherwise noted)

National Pension Funds	Semi-Private Pension		Private Pension	Private Lump-Sum Payment
	Employees' Pension Funds	Mutual Aid Pension	Tax Exempt Qualif'd Pension (1997)	Retirement Allowance Scheme
Supplemental 3rd Tier Optional	Supplemental 3rd Tier Optional	Supplemental 1/2/3 Tier Combined Mandatory	Supplemental 3rd Tier Optional	Supplemental 3rd Tier Optional
Government Category 1	Employers of more than 500 employees	Mutual Aid Associations National and local civil servants, teachers, etc.	Firms (employers)	Firms (employers)
0.73	Employees of above		Employees of above	Employees of above
1%	12.00	5.30	10.30	
4%	17%	7%	14%	
	36%	100%	31%	
	2.76	2.13		
0%	23%	40%		
	10%	7%		
Subscriber's choice	Fixed % of salary	Fixed % of salary	Depending on each firm	None Depending on each firm
—	1.6 ~ 1.9%	9.20%		
None	1.6 ~ 1.9%	9.20%		
¥19,000 ('00.3)		(including premium for National Pension)		
Not Available	¥333,622			
Exempt up to ¥68,000	Exempt	Exempt	Life insurance premium exempt	
	Exempt	Exempt	Exempt	
		17.11%(1997)		
Premium-related	Income-related	Income-related	Depending on each firm	39 to 46 months worth of monthly salary for employees who have worked full-term (38 to 42 years)
Depending on premium & age at the time of entry	Average monthly salary during insured months * fixed rate + alpha	(Monthly income * 0.9% * insured months * slide rate) + dependants allowance		
	¥56,000 (1996)	¥223,000(1997)	¥58,499(1997)	
Not available	16.8%			
65	60	60		
		Income-related 1st degree old age pension * 1.25 + dependants allowance, 2nd degree: old age pension		Not available
		Income-related 3/4 of old age pension for spouse or close family		Not available

Chapter 3

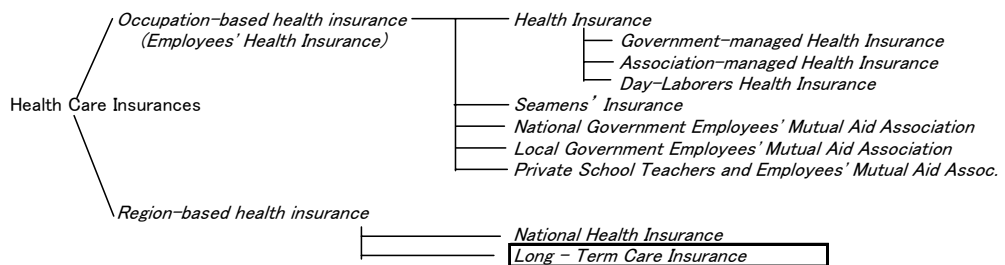
Health Insurance

I. General Characteristics

1. Universal health care and public insurance

Japan's medical services are financed through a public mandatory health insurance system, which is composed of two types of schemes: occupation-based and region-based. The former is called the *Health Insurance*. Employers and employees of firms of a certain size and over form a health insurance society and thus these are called the *Society-managed Health Insurance*. There are more than 1,800 such societies. For those who work at smaller firms, the government provides a collective health insurance, which is called the *Government-managed Health Insurance*. In addition, special professions such as civil servants, day laborers and seamen form separate nation-wide professional associations. Those who are not covered by the *Health Insurance* are required to participate in a region-based insurance, called the *National Health Insurance*, for which the municipalities (numbering more than 3,300) act as independent insurers. (See Fig 3.1) Mostly self-employed, farmers, workers of smaller firms and their family join the *National Health Insurance*, thus its participants more or less overlap those of the *National Pension*.

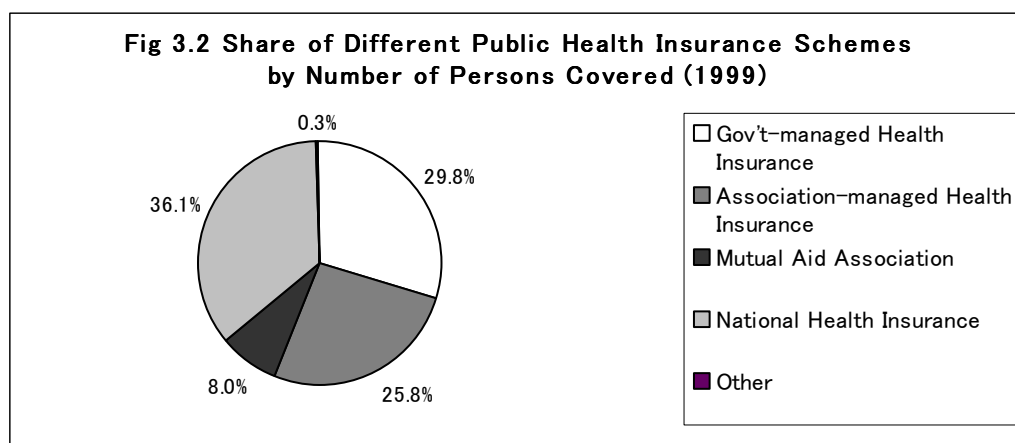
Fig. 3.1 Public Health Insurance System



The public health insurance with a universal coverage was established in 1961 concurrently with the universal public pension schemes.¹ The share of each scheme is shown in Fig. 3.2. The Government-managed Health Insurance, the Association-managed

¹ Those who are receiving public assistance are not covered by health insurance, since their medical needs are met by the welfare payments.

Health Insurance, and the National Health Insurance each account for about one third of the total population.



Source: MHW, "Kose Hakusho (2000)"

2. Financing of health insurance

All the public health insurance schemes are financed by premiums, subsidy from the general budget of the government, and co-payment from patients. For the *Health Insurance*, the premium is a fixed percent of employee's salary, which is shared equally by the employers and the employees. For the *National Health Insurance*, the premium differs among local governments and is usually levied on the basis of income, property, and number of insured within a household. A substantial government subsidy is given to the *National Health Insurance*. For all Japanese medical insurance systems combined, the contribution by government subsidy, insurance premiums, and patient co-payment are 32.2%, 52.9%, 14.9%, respectively (1998).

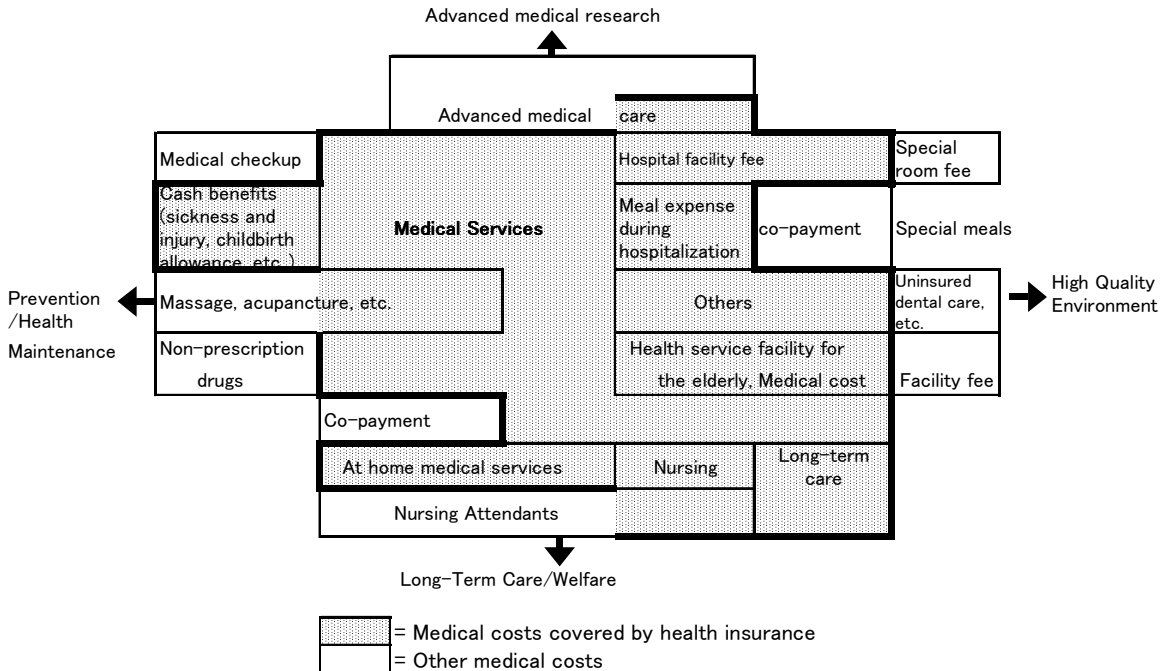
3. Free to choose any medical facility

Because Japanese health insurance systems are universal, there is no distinction between public and private hospitals from the viewpoint of the user. In fact, users are free to choose any medical service providers without constraint in terms of hospital type, location or other factors such as having referral or not.

4. Equal coverage of services at equal price

The coverage of health insurance and the prices of medical services are standardized by law, and thus, all persons receive the same medical service at equal price. The area covered by the insurance is shown in Fig. 3.3.

Fig. 3.3 Medical Services Covered by Health Insurance



Source:

5. Rising health care cost for the elderly

As the aging of the population proceeds, the share of the health care costs for the elderly in total medical costs has increased. However, because the composition of subscribers differs among insurance schemes, some insurance schemes, such as the *National Health Insurance*, have a larger number of elder subscribers than others and had to bear a bigger financial burden. To equalize the burden of the health care costs for the elderly among insurance schemes, a new system was introduced in 1983. Under the system, the health care costs for those aged 70 (See page 22 for details) and over in all schemes are separated from that for under age 70, and it is divided by all insurance schemes.

6. Introduction of the *Long-Term Care Insurance*

Even with such a cost-sharing system, the cost of the long-term care included in the health care for the elderly has become a burden on the health insurances. Recognizing the special nature of the long-term care and the need to separate the long-term care from other medical services, the Government has introduced a mandatory *Long-Term Care Insurance*, which started in April 2000. The new system requires additional contribution from those aged over 40 and covers a variety of at-home and institutional services for those aged 65 or over who are judged as in need of long-term care.

II. Types of the Health Insurance

1. *Health Insurance* (Occupation-based insurance)

People covered under this type of insurance are employees and their dependents. All employed persons are required to join the association, except those who are employed by private firms with less than five employees and self-employed. Depending on the occupation and size of employers, there exist several programs as described below.

(a) Society-managed Health Insurance

This scheme is operated by health insurance societies organized by large firms for their employees. Sometimes more than one firms form a single society. Currently, there are 1,813 such associations (as of April 1999).

(b) Government-managed Health Insurance

This is for the employees of small and medium scale firms, which cannot form a health insurance society on its own. The Government provides a collective health insurance for them, with contributions from the employers and employees.

(c) Day-Laborers Health Insurance

This is for day laborers, i.e. those who are employed on a day-to-day basis, those employed for a fixed term of less than two months, those are employed for seasonal work and those who are employed at temporary workplaces. Because of their unstable relationship with the employer, the Government provides a collective health insurance, for which contributions are collected on a day-to-day basis from both employers and employees.

(d) Other Occupation-based health insurance

- *Seamen's Insurance*
- *National Government Employees' Mutual Aid Association*
- *Local Government Employees' Mutual Aid Association*
- *Private School Teachers and Employees' Mutual Aid Association*

The first is operated by the Government, and the other three, by each mutual-aid associations.

2. *National Health Insurance*

This program covers all those who are not covered by the *Health Insurance*, i.e. self-employed, farmers, students, and so forth. The insurers are municipalities in most cases, except for special professionals such as medical doctors who form *National Health Insurance Societies* on their own. Retirees who previously subscribed to the *Health Insurance* are insured under the *National Health Insurance*. However, the health care cost for the retirees of age 60-70 are financed by the transfer from the *Employees' Health Insurance*, i.e. retiree's former insurer.

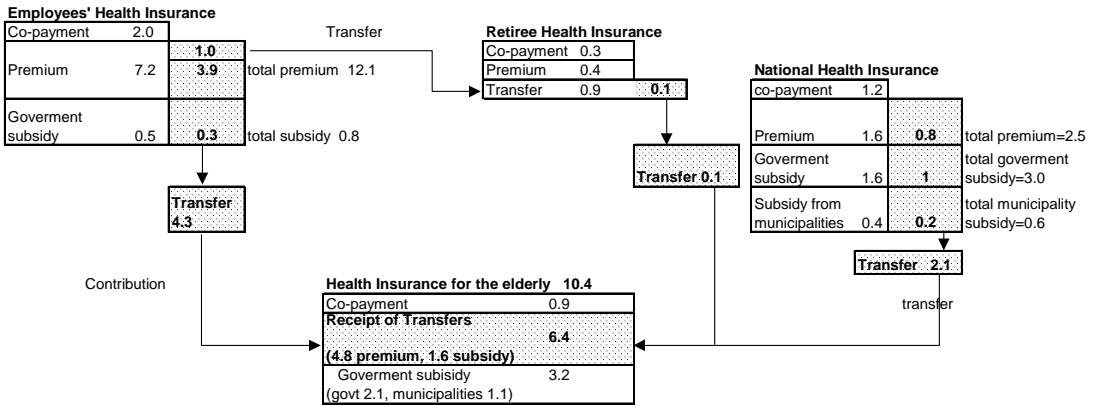
The *National Health Insurance* is financed by the government subsidy as well as the insurance premiums collected from its subscribers on a household basis. The premium can be discounted up to 60% for low-income households.

3. *Health Service System for the Elderly*

Previously, health insurance for the elderly was covered under the *National Health Insurance*, except when they are financially dependent on their family and are covered by the *Health Insurance* of their family as their dependents. However, as a result of an increasingly aging population and rising cost, this arrangement led to an unbearably heavy burden on the *National Health Insurance*. Thus, a special program was created for those aged 70 and over, and for those between 65 and 70 years old who are bed-ridden or have severe disabilities. Under this program, the health care costs are mostly met by the subsidy from the central and local governments (30%) and the transfer of contributions from the *National Health Insurance* and the *Health Insurance* (70%) with minimal co-payments from the elderly. (See Fig 3.4)

Fig. 3.4 Sources of Financing in Health Insurance Schemes, 1998

(in trillions of yen)



4. Medical benefits

Under the *Health Insurance*, the insured pays 20% of cost of all care, and dependents pay 30% of the cost (20% if inpatient). For both of them, the maximum of co-payment is 63,600 yen a month or the 22% of the average monthly salary, plus 1% of the cost over a certain amount for one illness. There are a lower threshold for low-income families and a higher threshold for the high-income families.

Under the *National Health Insurance*, the insured pays 30% of medical costs. The maximum of co-payment is same as for the *Employees' Health Insurance*.

The co-payment for the elderly had been fixed low, but due to financial problems mentioned earlier, a reform was undertaken in 2000. Now, outpatients pay 10% of the cost of the drugs, as opposed to a rather low nominal fixed price before. The in-patients also bear 10% of the hospital fee, with a ceiling of up to ¥37,200 per month.

III. Current Issues of Health Insurance

1. Health care cost for the elderly

The share of health care costs for the elderly has risen continuously, reaching to about 34.6% of all medical costs (FY 2000). Since the contribution and co-payment of the elderly had been very limited, their medical costs are mainly met by the younger population's contributions in the health care system. However, due to rising medical costs and decreasing premiums caused by stagnant number of employees, many insurers in the *Health Insurance Associations* and the *National Health Insurance* have faced financial difficulties. More than a half (53.85% in 1998) of the *Health Insurance* schemes were in red, and it will be difficult for them to pay the required amount for the *Health service for the Elderly*, which takes up as much as 40% of their income from the premiums.

One of the reasons that the medical costs for the elderly are high is so called "the Social Hospitalization", meaning frail elderly are kept in hospitals for extended time of period, not necessarily because their conditions require medical attention in hospitals, but rather, they lack appropriate care at home or at a care facility. The introduction of the *Long-Term Care Insurance* in April 2000 is expected to reduce the high medical costs for such hospitalization by providing appropriate care at home and at lower-cost care facilities. The verdict on the success of the new scheme is not yet to be seen.

2. Reform of Drug Pricing

Drug tariff schedule sets the official price for each medicine on the basis of the weighted average of market price. Since a medical provider can obtain medicine at a bulk price which is lower than the official price, there exists an incentive for a medical provider to prescribe more medicine, and this is one of the reasons for high consumption of the drugs. A debate is on going to abate this incentive and to design a new system.

3. Reform of medical fee System

Under the current systems of fee-for-service payments, medical providers are paid, in principle, for whatever services and medicine they provide. Thus, there is an incentive for medical providers to over-examine and over-prescribe medicine, creating a tendency to

higher medical costs. In addition, there has been a gradual shift from acute to chronic diseases. This has led to a debate on a reform of the fee schedule to fixed prospective payments so that doctors are paid a fixed amount depending on the type and severity of the disease, sometimes called DRG (Diagnosis Related Groups) method. This system has been experimentally introduced to about 10 hospitals.

4. Restructuring of medical providers

In Japan, beds for general illness compose 3/4 of total beds, while the rest goes to tuberculosis, mental illness and other special illness. Patients of both acute and chronic conditions use beds for general illness. This poses a problem of bed management because chronic patients occupy beds for a long period of time. Currently, it is under consideration to divide the general beds into acute and chronic uses, in order to manage beds more efficiently. Moreover, classifying and demarcating the hospitals according to types of diseases and conditions is also considered.

Also under consideration is to promote information sharing between doctors and patients, such as opening of medical files to the patients, informed consent practice, and more generally, protection of patients' rights.

Outline of the Health Insurance System

Employees health insurance systems (EHIS) - Profession-based				
Health Insurance				Seamens' Insurance
1) Name	Gov't-managed Health Insurance	Association-managed Health Insurance	Day-Laborers Health Insurance	
2) Eligible subscriber	Employees of Small-Medium firms	Employees of Large firms	Day-Laborers	Seamen
3) Number of subscriber (millions)	19.95	15.81	0.04	0.10
Dependents % of population	18.02	17.28	0.02	0.18
	30%	26%	0.05%	0.2%
4) Insurer (number of organizations)	Government	Health Insurance Associations (1,813)	Government	Government
5) Premium rate:				
Subscriber	4.25%	3.691% (avg)	¥55~1050/day	4.40%
Employer	4.25%	4.769% (avg)	¥85~1700/day	4.40%
	1.0% (Special Premium)			
6) Gov't Subsidy to:				
Administrative cost	All	All	All	All
Medical cost	13%	¥10.3 billion	13%	¥3 billion
elderly	16.40%	--	16.40%	--
7) Co-payment:				
Subscriber	20%	20%	20%	20%
Dependents	20% for inpatients 30% for outpatients			
Out-patient medicine	(Internal medicine)¥0(1 kind), ¥30(2-3kinds), ¥60(4-5kinds),¥100(>6)/day,			
Inpatient meal expense	¥760/day (for low-income family ¥650/day for first three months, ¥500/day after			
Maximum	¥63,600 (for low-income person ¥35,400)			
8) Allowance:				
Childbirth allowance	¥300,000	Same as the left column	¥300,000	¥300,000
Funeral expense	1 month of avg. salary (min. ¥100,000)		Avg. monthly wage (min.¥100,000)	2 months of salary (min. ¥100,000)
Fun.exp. for dependents	¥100,000		¥100,000	1.4 month of salary (min.
9) Unemployment benefits:				
Due to sickness	60% of avg. wage	Same as the left column	2% of Avg monthly wage/day	60 % avg. wage
	Up to 18 months		Up to 6 months (except for TB 18	Up to 3 years
Due to childbirth	60% of avg. wage		42 days before birth, 56 days after	60% of avg. wage
Due to unemployment	42 days before birth, 56 days after		42 days before birth, 56 days after	Unemployed days before birth, 56 days after
10) Disaster Relief:				
For death	---		---	---
For death of a family member	---		---	---
For disaster	---		---	---

			Regional Based Insurance		
National Govt Employees' Mutual Aid Association	Local Govt Employees' Mutual Aid Association	Private School Teachers & Employees' MAA	National Health Insurance		
National Govt Civil Servants	Local Govt Civil Servants	Private School Teachers & Employees	Self-employed, farmers, etc.	Retired	
1.14	2.98	0.44	39.81	4.52	4.43
1.52	3.75	0.38	0	0	0
2%	5%	0.6%	31%	4%	3%
Mutual Aid association of each ministry (24)	Mutual Aid association of each local govt (54)		Municipality (3,249)	National Health Insurance Associations (166)	Municipality (3,249)
2.46 ~ 5.00%	4.26% (avg)	4.23%	Avg. premium per family ¥156,952		
2.46 ~ 5.00%	4.26% (avg)	4.23%	--	--	(1997)
All	All (by local govt)	Partial	All	All	All
--	--	--	50%	32~52%	--
--	--	--	--	--	--
20%	20%	20%	30%	30%	20% inpatient, 30% outpatient
			--	--	--
(External medicine) ¥50(1 kind), ¥100(2 kinds), ¥150(>3)					
3 months, or for low-income family receiving elderly pension ¥300/day)					
standard amount ¥300,000	standard amount ¥300,000	standard amount ¥300,000	standard amount ¥300,000		
1 month of avg. salary (min ¥100,000)	1 month of salary (min ¥100,000)	1 month of avg. salary (min ¥100,000)	Set according to the law		
70% of avg. salary (min ¥100,000)	70% of 1 month of salary (min ¥100,000)	70% of avg. salary (min ¥100,000)	--		
65% of avg. salary	80% of salary	80% of avg. salary	Standard not set		
Up to 18 months (except for TB 3 yrs)	Up to 18 months (except for TB 3 yrs)	Up to 18 months (except for TB 3 yrs)	Standard not set		
42 days before birth, 56 days after	80% of avg. wage 42 days before birth, 56 days after	80% of avg. wage 42 days before birth, 56 days after	Standard not set		
50% of avg. wage	60% of avg. wage	60% of avg. wage	--		
1 month of avg. salary	1 month of salary	1 month of avg. salary	--		
70% of monthly avg. salary	70% of monthly avg. salary	70% of monthly avg. salary	--		
0.5 to 3 months of avg. salary, due to severness	0.5 to 3 months of avg. salary, due to severness	0.5 to 3 months of avg. salary, due to severness	--		

Chapter 4

Social Assistance

I. General Characteristics

1. Explanation of terms

The social assistance in Japan can be divided into: (1) Income assistance for the poor and (2) Social services and assistance for socially disadvantaged people. The former is called the *Public Assistance*, while the latter includes *Welfare for the Children*, *Welfare for the Disabled*, *Welfare for Single-Mother Households*, and *Welfare for the Mentally Disabled People* depending on the specified target group. The *Public Assistance* includes both in-kind and in-cash assistance to the poor household, while the latter includes mostly services such as at-home and institutional services, but sometimes in-cash assistance. Thus, the term *welfare* is used widely to indicate various social assistance programs and institutions that fall within the above-mentioned areas. Most of these programs, institutions and services are provided from the general budget of the government and municipalities.

Until the *Long-Term Care Insurance* was introduced in 2000, the services for the elderly were also termed the “Welfare for the Elderly”. However, many services for the elderly are now covered by the *Long-Term Care Insurance*, and thus, it will be discussed in Chapter 5.

2. Means test and universality

The *Public Assistance Law* stipulates a principle that every citizen has a right to claim public assistance without discrimination, regardless of reasons for falling into hardship. However, the *Public Assistance* is provided with fairly strict means and asset tests, which might be a reason for low percentage of population receiving the public assistance. The *Child Allowance* is also provided with a means test, but the threshold is much higher than that for the *Public Assistance*.

On the other hand, most of the services provided at institutions for the disabled and children are provided to all, even though there is a difference in fee depending on the income of the recipient.

II. Assistance Schemes

Here, main features of the following three categories of the social assistance will be described. Income assistance, rather than services, will be the main focus of the discussion.

1. *Public Assistance for the poor*
2. *Welfare for Children (including Single-Mother Households)*
3. *Welfare for the Disabled*

1. *Public Assistance for the poor*

The root of Japan's public assistance goes back to the *Indigent Person's Relief Regulation* (1874) and the *Poor Relief Law* (1932). However, a modern version of the public assistance started in the midst of the confusion after the World War II with the *Public Assistance Law* (1946), followed closely by its total revision in 1950. The *Revised Public Assistance Law (New)* constitutes a backbone of the public assistance today. The Law stipulates four fundamental principles: (1) public assistance to the people in need is a responsibility of the state, (2) all citizens¹ have a right to claim public assistance without discrimination of sex, social background and reasons for falling into hardship, and only the economic condition is the criteria of receiving assistance, (3) the state guarantees to all citizens a minimum level of healthy and cultural life, and (4) public assistance is a supplement to all resources available to and the best efforts exerted by the applicant.

The *public assistance* is provided upon a receipt of an application from a household in need and after a careful examination of the application. The assistance is calculated by subtracting the household's final income from the *minimum cost of living*. In case the minimum cost of living exceeds the final income, the difference is given as the assistance. The *minimum cost of living* is calculated from seven categories of expenses: livelihood, housing, educational, medical, maternity, occupational, and funeral expense. The calculation of the *minimum cost of living* takes into consideration the differences in living costs among different regions of the country, and household members' age. All assistance is provided as cash transfers, except a few such as medical costs, which are provided as in-kind.

¹ The Public Assistance Law (New) excludes foreigners from this right, but currently, by order, legal foreigners are given "equal treatment as citizens". Illegal foreigners are not covered.

(a) Means test

The principle (4) of the *Public Assistance* states that the *Public Assistance* must be a supplement to the person's best efforts and available resources. In other words, the person is required to use all available resources, including assets, ability to work, as well as assistance from those who are required to support the person by law. Assets such as land, houses and farms must be sold, except in the case where the person is actually living or utilizing it and the value of the assets is higher when it is utilized than when it is sold. Household goods such as TV are allowed if the diffusion rate of the goods is more than 70% in the region.

As for the utilization of the ability, the person will not be able to receive assistance if he/she is judged as capable to work. If the person has a will and ability to work, but is unable to find work, it is unlikely that he/she would be given assistance.

The civil law states that certain relatives and family members are required to support a person in need. Thus, the public assistance is given only after it is judged that this support is not available. In practice, spouses and parents of a minor (less than 20 years old) have strong responsibility to support the person.

(b) Statistics

In 1998, 663 thousand households or 947 thousand persons (0.75% of the population) received some types of public assistance. Among them, the share of elderly household is the largest, accounting for 44.5% of all recipient households, and has been increasing for some years. The share of the household with a disabled or sick is also large, at 40.4%. The rest are single-mother households and others. The large share of households with the elderly, disabled or sick may be the reason that the most of recipient households (87.7% in 1998) do not have any working member.

Table 4.1 Persons Receiving Public Assistance by Types of Aid

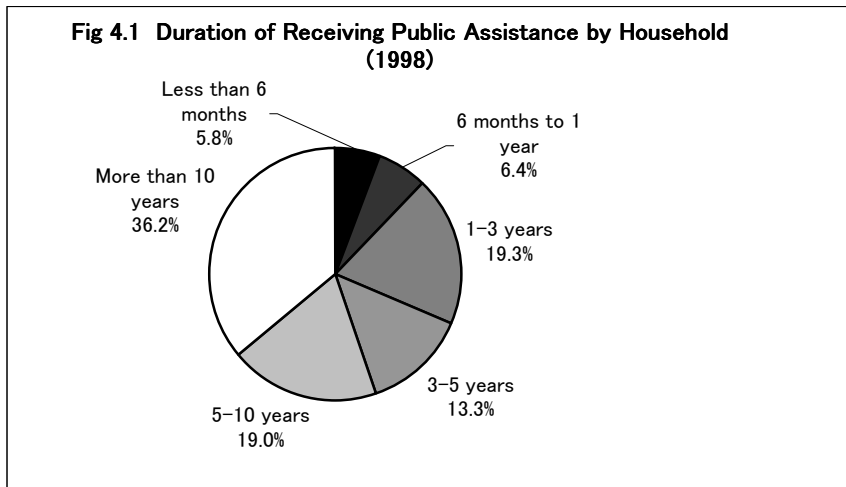
(Monthly average, 1998)

	Unit	Number	%
Number of Households	(1000 households)	631	
Number of persons	(1000 persons)	906	100.0
Livelihood aid	(1000 persons)	784	86.5
Housing aid	(1000 persons)	669	73.8
Educational aid	(1000 persons)	84	9.3
Medical aid	(1000 persons)	716	79.0
Other types of aid	(1000 persons)	3	0.3

Table 4.2 Percentage of Household Receiving Aid by Types of Household

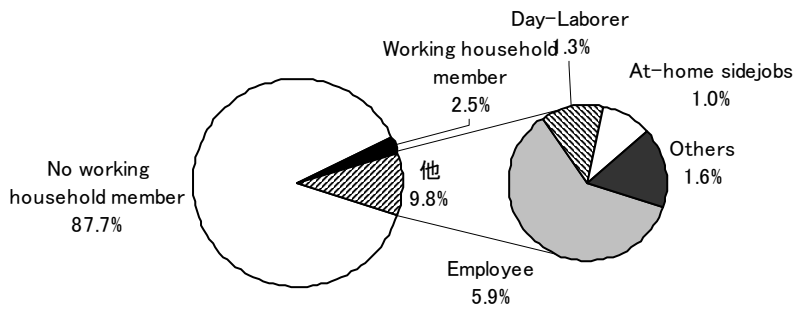
Type of Household	%
Elderly households	44.0
Single-mother households	8.3
Household with disabled or sick	41.0
Other	6.7

Source: MHW, 2000



Source: <http://www.ipss.go.jp/Japanese/seiho/seiho.html>

Fig 4.2 Working/Non-working Households Receiving Public Assistance (1998)



Source: Shakai Hoshu Tokei Nenpo, 2000

2. Welfare for Children (including Single-Mother Households)

(a) Child Allowance and Special Child Allowance

This is an area where there have been significant reforms within past year or so. The new interest in reforming the Welfare for Children is spurred mainly due to the concern that the number of children is decreasing. First, in the past, the *Child Allowance* is granted to parents (or guardians) who are raising children less than 3 years old and whose income is less than a specified amount. Since June 2000, the age limit was raised to 6 years old and the income threshold was also raised. (See Table 4.3 for income threshold). The amount of the *Child Allowance* is ¥5,000 per month for the first two, and ¥10,000/month/child for other children. The financial burden of the *Child Allowance* for children 0 to 3 years old is born by employer, central, prefectural and municipal governments at 70%, 20%, 5%, 5% for a recipient who is employed, and by the central, prefectural and municipal governments at 66%, 16% and 16% for a recipient who is not an employee. For children 3 to 6 years old, the entire financial burden is born by the government (central 66%, prefectural 16%, municipal 16%).

In addition, for a parent who is either employee or a public servant, a higher income threshold was set for receiving the *Special Child Allowance*. The amount of the *Special Child Allowance* is same as the *Child Allowance*, but the entire financial burden is born by his/her employer.

Table 4.3 Income Threshold for Child Allowance

Number of Dependents	Threshold for Child Allowance*	Threshold for Special Child Allowance*
None	170	361
1 person	208	399
2 persons	246	437
3 persons	284	475
More than 4 persons	+38.0/person	+38.0/person

* Annual Income of previous year (unit:¥10,000)

Table 4.4 Number of Child Allowance Recipients and Expenditure, 1998

	Number of Recipients	Number of Children covered	Expenditure (unit: million yen)
Total	1,981,265	2,209,515	148,434
(of which SCA)	(1,281,193)	(1,422,037)	(93,954)
Employee	1,445,505	1,607,383	107,989
(of which SCA)	(1,130,115)	(1,251,874)	(82,850)
Non-Employee	378,524	424,901	28,881
Public Servants	157,236	177,231	11,564
(of which SCA)	(151,078)	(170,163)	(11,104)

Source: Kose Tokei Kyokai, 2000, , MHW, 2000

Note: SCA = Special Child Allowance

(b) Child Rearing Allowance (for *single-mother households*)

As part of measures for single-mother households, Child Rearing Allowance is given to a mother or other persons having custody of, and rearing a child less than 18 years old, who does not share a common household income with father and whose earnings for the previous year is less than the threshold. For mothers and others with less than ¥2,048,000 of annual earning, monthly allowance of ¥42,370 in case of one child, ¥47,370 in case of two children, and for third child and up additional ¥3,000 for each child is granted. For similar persons whose earnings of the previous year was more than ¥2,048,000 but less than ¥3,000,000, monthly allowance is reduced by ¥14,020.

(c) Child Care Facilities (Day-care centers, etc.)

Municipal governments are required by the *Child Welfare Law* to provide day-care centers for children whose parents are not capable of taking care of them for reasons such as work, illness, and care of other members of the family. Day-care centers provide 8 hours of care, but demand to extend the hours has been increasing. The staffing and other quality measures are tightly regulated by the state. Fee for day-care centers depends on municipality.

3. Welfare for the Disabled

The measures for people with disabilities are divided into (1) those for people with physical disabilities, (2) for people with mental disorders, (3) for children with mental and physical disabilities and (4) adults with intellectual disability. Measures are mainly institutional services and in-home services. Tables 4.5 and 4.6 list services provided.

Table 4.5 Measures for People with Physical Disabilities	
Community Service	
Rehabilitation	Provision of medical rehabilitation service Home visiting examination and rehabilitation counseling
Provision of goods	Provision of technical aids for daily life Provision of daily life appliances
In-home care	Allowance for people with special disabilities Home-help service Short term stay program
Health care	Health checkup
Social participation	Counseling Day-service programs Sheltered day workshops etc.
Institutionalized Service	
Rehabilitation facilities	For persons with disabilities of limb or body For the blind For the deaf For people with internal disorders For people with severe disabilities
Residential facilities	Custodial care homes Welfare homes
Work facilities	Sheltered workshops Sheltered workshops for people with severe physical disabilities Sheltered Day workshops Welfare factories
Community facilities	Welfare centers (health care and relaxation activities) Day service centers Recreation centers Facilities for braille publication and Braille libraries Information center for the deaf Facilities for production of prosthetic appliances Homes for the blind
Source: MHW, 2000	

Table 4.6 Measures for People with Mental Disorders	
Medical services	Psychiatric hospitals and clinics
Community services	Day-care Visiting guidance for user groups welfare counseling
Social rehabilitation services	Dormitories (for those unable to carry out daily lives on their own) Short-term residency (for those who can carry out daily lives on their own, but have no place to live) Welfare homes (provide workplace) Sheltered workshops (those who can work, but have no place to live) Group homes Small workshops (work training) Social rehabilitation programs Counseling
Source: MHW, 2000	

As for the income assistance, disability pensions under the *National Pension*, the *Employees' Pension Insurance* schemes, and the *Allowance for Special Disabled Persons* are granted for eligible persons with disabilities who are over 20 years of age. For households who are raising children with disabilities under age 20, the *Family Allowance for Special Children* and the *Welfare Allowance for Disabled Children* are applicable. If the sum of eligible allowances and any other income is under the minimum cost of living, the *Public Assistance*, as discussed in section II.1, is granted to secure the minimum standard of living. Amount of each allowance is summarized in Table 4.7.

Table 4.7 Income Assistance for the Disabled, 1999

Allowances	Allowance for Special Disabled Persons	Welfare Allowance for Disabled Children	Family Allowance for Special Children
Amount (monthly)	¥26,860	¥14,610	¥51,550 (1st degree) ¥34,330 (2nd degree)
Eligibility	Disabled persons over 20 years old requiring special care and living at home	Those raising mentally disabled children requiring special care and living at home	Those raising disabled children and is not receiving disability pension

Pensions	National Basic Pension	Employees' Pension Insurance
Type	Flat rate	Income-related
Amount (Annual)	¥1,005,300 (1st degree) or ¥804,200(2nd degree) + dependents allowance	Monthly income * 0.75% * insured months * slide rate * (1.25 for 1st degree, 1.0 for 2nd degree)+ dependants allowance
Average Amount	¥76,888	¥106,116
Eligibility	Over 20 years of age, who have paid 2/3 of premium period and those who are under 20 at the time of becoming disabled and who have turned 20	For those who have become disabled during insured months (for those under 300 months of insurance period, 300 is applied)

Source: Kosei Tokei Kyokai, 2000, Shakai Hoshō Tokei Nenpo, 1999

III. Current Issues

1. Basic Structural Reform of Social Welfare

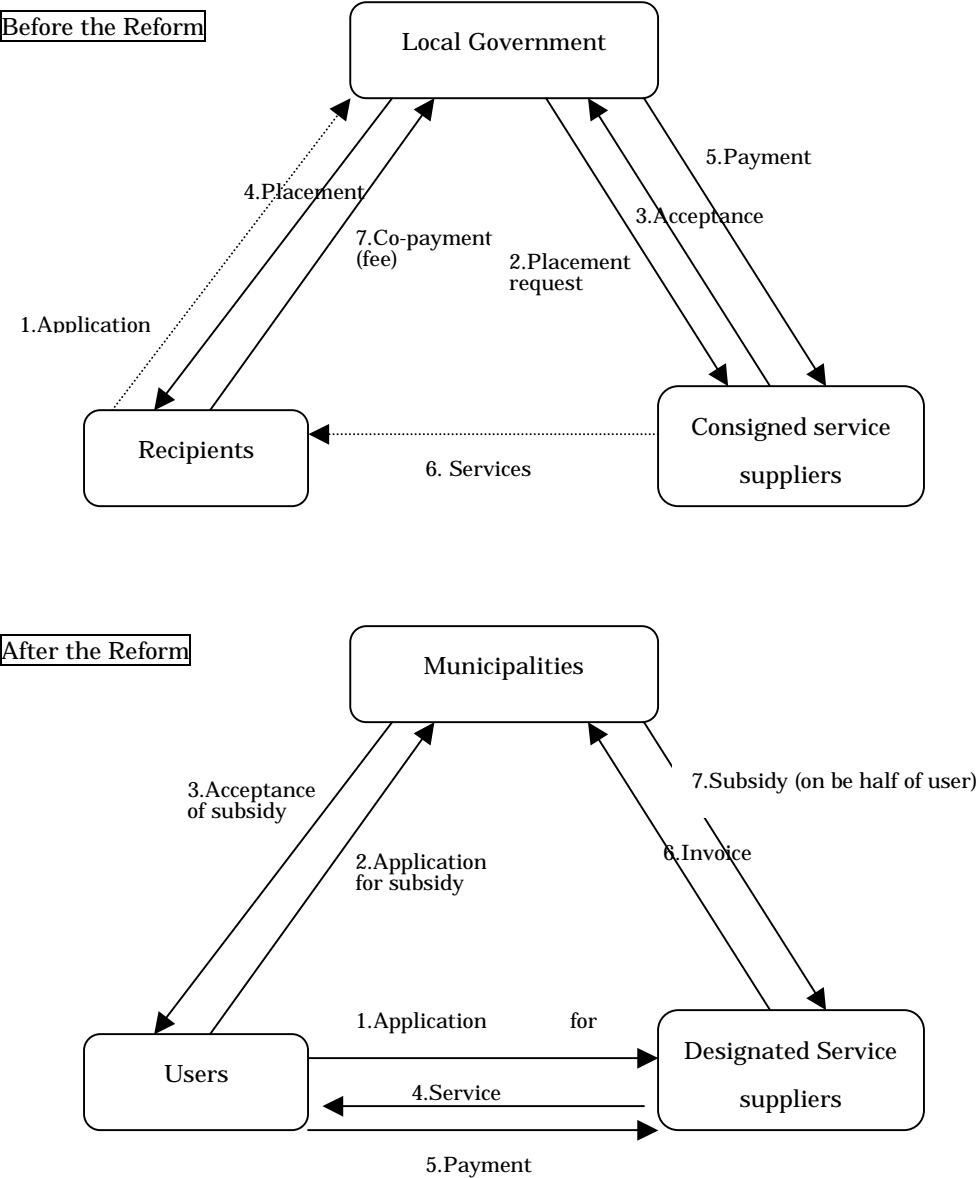
The 1945-55 conception of public relief for the poor still remains in the basic framework of social welfare in Japan. However, there is a growing awareness of the necessity to respond to the diverse welfare needs of people and to provide them with high quality services. With such an understanding, the government is carrying forward some reforms. First, in 1990, the Social Welfare system was revised to (1) place more emphasis on the at-home services, and (2) the services are standardized to be provided at municipality level. Since 1997, the government is carrying forward the Basic Structural Reform of Social Welfare.

The reform aims to establish a system that ensures the choice of individuals. Previously, specifically in case of services requiring institutionalization, the welfare offices assessed the need of the person in question and ordered appropriate measures. Under such a system, the user could not choose the service or the institution. Under a new system, an individual selects his/her own services and uses them based on a contract with suppliers. (Fig. 4.3) The reform has established the vision for the new social welfare, but concrete measures and programs are still being debated.

2. Need to create a society favorable to child rearing

Japan has faced a rapid aging of the population, which is caused by both a decrease in the fertility rate and an increase in the life span. In order to stop the trend toward a society with a few children, it is necessary to create an environment favorable to child rearing. However, many Japanese working parents rely much on mothers staying at home or grandmothers taking care of children. As the number of working mothers rises, there has been a severe shortage of day-care centers, especially for 0 to 2 year olds, within metropolitan cities. In 1999, the Government has allocated a special supplemental budget to reduce the number of waiting children for day-care centers. Yet, more efforts in this field are needed to increase the number and diversify the kind of day-care centers and other measures to help working parents. Measures to help not only working parents but also non-working mothers, who are feeling stress of bringing up children in the absence of extended family and community ties, will work to create a child-rearing easy society.

Fig. 4.3 Diagram Representation of the Welfare Reform



Chapter 5

Long-Term Care

I. General Characteristics

Introduction of the *Long-Term Care Insurance*

Starting in April 2000, Japan introduced the *Long-Term Care Insurance*. The insurance system will cover the long-term care of the elderly, which was previously provided partly through the health insurance system and partly by the welfare measures. The main differences between the *Long-Term Care Insurance* and long-term care provided by the prior system are shown in Table 5.1. The new system grew out of the recognition that, due to changes in the society such as weakened community ties, increase in small-sized families, and increase of working women, financial and psychological burden of family facing the care for the elderly has become unbearably large. The *Long-Term Care Insurance* is designed to share the burden of caring for the elderly among all members of the society and lessen the burden of the family. In other words, it aims to establish a system that responds to society's major concern about aging, and to assure the citizens that they will receive care, if necessary, and be supported by society as a whole. Furthermore, it is expected to alleviate the financial pressure placed by the care need of an aging society on the health insurance system.

Table 5.1 Differences between New and Old Care Systems

	Old		New
	Welfare for the Elderly	Insurance for the Elderly	Long-Term Care Insurance
Service Target	Low-income, living alone or other requirements	Those aged 70 years old and over and those between 65 and 70 with disabilities	Those aged 65 years old and over and those between 40-64 who are subscribers of medical insurance
Eligibility for Service	Care needs and conditions of family structure, income, etc.	Care needs	Care needs
Co-payment	According to ability to pay	¥530/visit, ¥1,200/day of hospitalization	10% of service fee
Service Providers	Public welfare facilities	Medical facilities	Public or private care facilities, medical facilities
Freedom of choice by user	No	Yes	Yes

Source: Nihon Iryo Kikaku, "Iryo Hakusho, 1998"

II. Long-Term Care Insurance System

a) Insured

The insured persons are those who are aged 65 and over (*Category I*) and those between ages of 40 to 64 and are subscribers of health insurance (*Category II*). The premium is collected through municipality and deducted from pensions for the *Category I*, and through additional premium to be paid to health insurance for the *Category II*. Premium amount is determined by each municipality, and thus differs depending on available facilities, in-home services provided, and demand for care services. Premium is income-related, and there will be measures to moderate the burden for low-income persons.

b) Service provided

A list of care services is shown in Table 5.2. The services are provided both at home and at institutions depending on the care required by user. The user is free to choose the kind of care and its providers, which can be either public or private.

c) Source of financing

The cost incurred in the *Long-Term Care Insurance* is financed by premiums, government subsidy and co-payment of users. A part from the co-payment of the users, the cost is financed 50% by premiums (17% by Category I, 33% by Category II in FY2000) and 50% by government subsidy. Within this framework the municipality can determine the rate of premium for the insured of Category 1. It is estimated about 3,000 yen per month on average (FY2000). For the Category 2 insured the rate will be 0.95% of salary in the Government-managed Health Insurance and 0.88% in the Society-managed Health Insurance (FY2000). Co-payment for the services is 10% of the cost, plus, for those in a hospital or an institution, a part of the meal expense.

d) Assessment of the care-needs

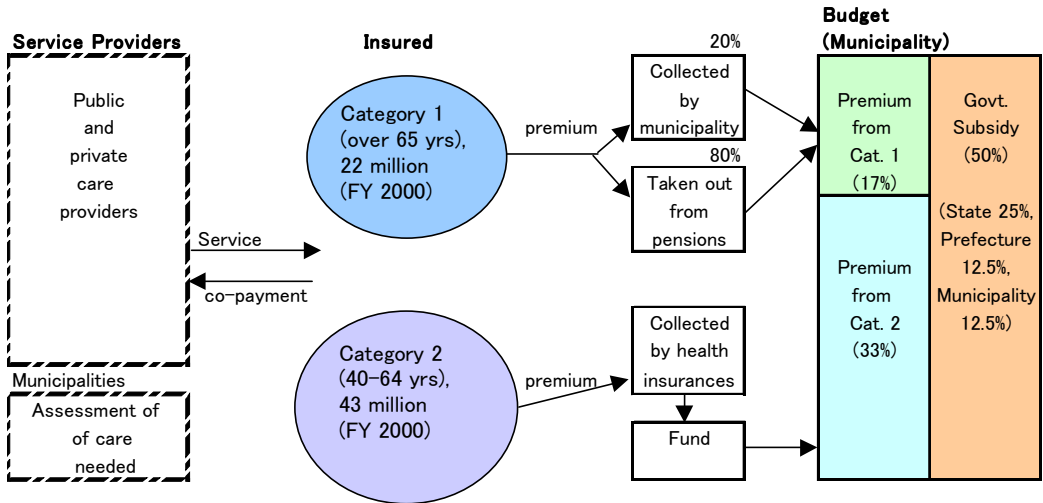
The users are classified into 6 categories ("Assistance Required" and "Care Required Level 1 to 5"), depending on the severity of the care need. The upper limit of services provided is determined according to this category. The user must be assessed by the municipality into one of the categories before applying for the services.

Table 5.2 Care under Long-Term Care Insurance

Service for those staying at home	Service for those who are institutionalized
Home-help	Special nursing homes for the elderly
At-home bathing	Long-term care at health facilities for the Elderly
At-home nursing	
At-home rehabilitation	Long-term care at medical care facilities for sanatorium (sanatorium words, etc.)
Out-patient rehabilitation	
At-home medical care management counseling	
Day-service	
Short-stay service	
Group home for elderly with dementia	
Long-term care at private homes for the elderly	
Provision or subsidy for care equipment	
Subsidy for home alteration to meets care needs	

Source: Kenko Hoken Kumiai Rengokai, "Shakai Hoshu Nenkan 1999"

Fig. 5.1 Diagram Representation of Long-Term Care Insurance



Source: Kenko Hoken Kumiai Rengokai, 1999, MHW, 1999

III. Current Issues

1. Shortage of care providing facilities

One of the concerns in introducing the *Long-Term Care Insurance* is uneven distribution of care facilities throughout Japan, resulting in a shortage of care providing facilities, both private and public, in some regions. The anxiety is expressed, “Insurance, but no Service”. The government has formed a plan to increase the public care facilities and to encourage private sector to enter into the field.

At the same time, there is also a concern about the quality of care provided by the private sector. The quality control measures need to be set.

2. Response to the rise of insurance premium and the co-payment

Another issue is the amount of premium. For the insured of the *Category I*, the premium is deducted from pensions or collected separately by the municipality, and for the *Category II* the premium of the *Long-Term Care Insurance* will be added on top of the health insurance premium. There is also a considerable variation in the premium among municipalities. There has been a considerable out-cry from low-income households who cannot bear the premium or/and the co-payment, and as a response some municipalities have reduced the premium or the co-payment for the low-income users.

3. Determination the Category

Assessing the true requirement of the elderly, and categorizing into 6 categories is very hard. Especially in case of dementia, there have been reports that they are likely to be classified in a lower category.

Chapter 6

Employment Insurance

I. General Characteristics

Japan uses the term “Labor Insurance” to mean both the *Labor Accident Insurance* and the *Employment Insurance*. The two are independent schemes, but in some respects, such as the collection of the premiums, are treated together. In this Chapter, the focus of the discussion is the Employment Insurance.

Employment Insurance has two functions. One is to provide employees cash benefit in case he/she loses the job. The other is to support employers to prevent them from laying off their employees. The former is called the *Unemployment Benefits*, and the latter consists of three components, namely: *Services for employment stabilization*, *Services for developing human resources*, and *Services for employees’ welfare*. The *Unemployment Benefits* also include a variety of benefits such as the *Job Applicants’ Benefits*, the *Study and Training Benefits*, and the *Employment Continuation Benefits*. The entire scheme is shown in Fig. 6.1.

II. Employment Insurance System

1. The Basic Allowance for the Job Applicants

This is the most commonly referred to as the “Unemployment Benefits”. For general employees, it is necessary to have been insured for at least 6 months within one year prior to leaving the job. The duration of the benefits ranges according to the age of the beneficiary and the years of being insured. Since April 2001, the duration of the benefits also depends on the reason of the unemployment, i.e. whether the termination was voluntary (including retirees) or involuntary and without enough time period to arrange re-employment (due to lay-off or bankruptcy of the firm). The Tables 6.1 to 6.3 show the number of days for each kind of recipients.

2. Old Age Continuous Employment Benefits

This is a scheme for old employees who are between ages 60 and 65 and continue to work at a salary lower than 85% of their salary at age 60. They have to be insured for at least 5 years before receiving the benefit.

Fig. 6.1 Employment Insurance

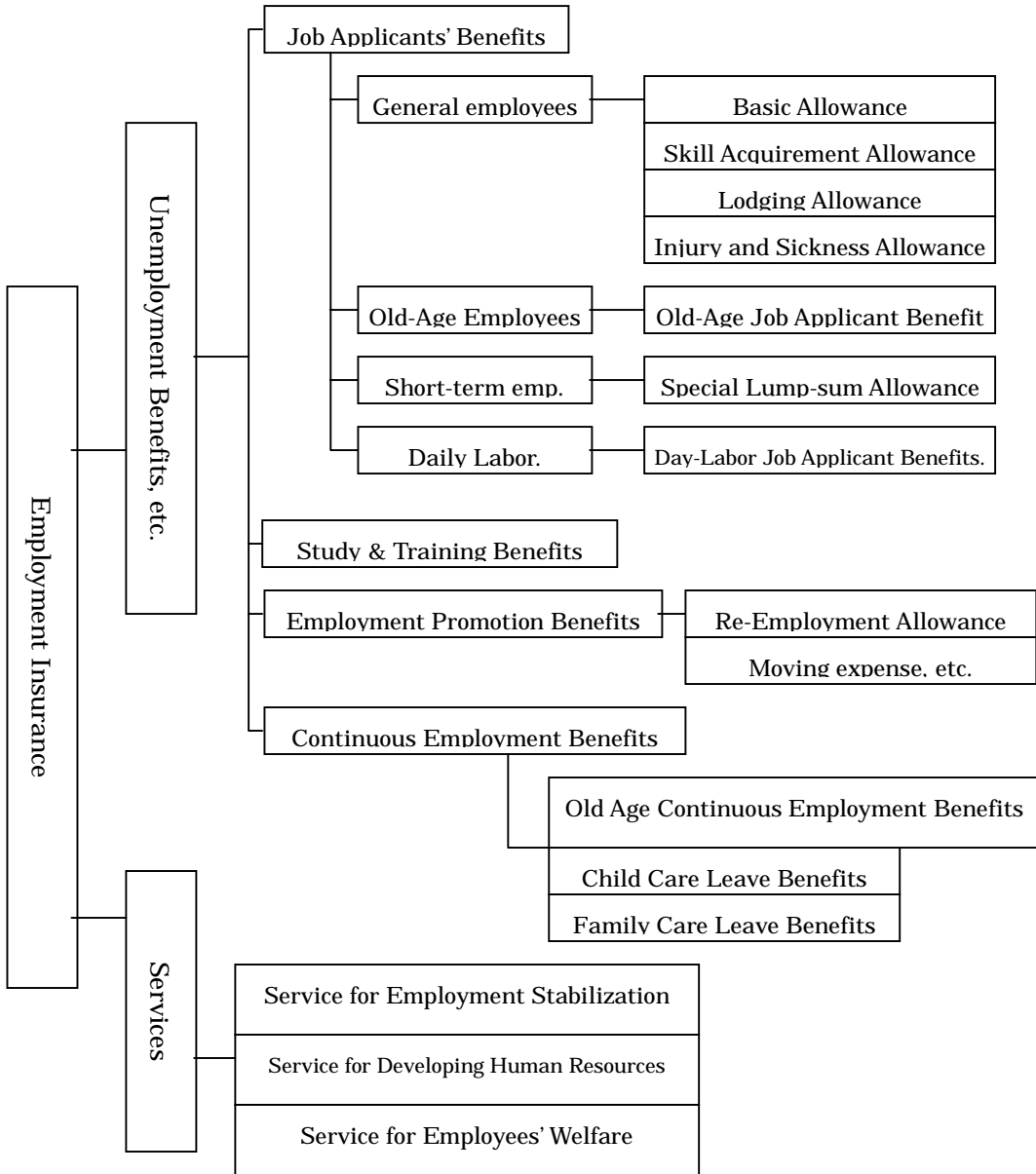


Table 6.1 Duration of Basic Allowance (General Employees)

(unit: days)

	Years of being insured			
	Less than 5 years	5<= and <10 years	10<= and <20 years	More than 20 years
General	90	120	150	180
Short-term	90	90	120	150

Data is effective starting April 1, 2001.

Table 6.2 Duration of Basic Allowance (Involuntary terminated Employees)

(unit: days)

Age of beneficiary	Years of being insured				
	Less than 1 year	1<= and <5 years	5<= and <10 years	10<= and <20 years	More than 20 years
Less than 30	90 (90)	90 (90)		180 (150)	-- --
30~44		90 (90)	180 (150)	210 (180)	240 (210)
45~59		180 (90)	240 (210)	270 (240)	330 (300)
60~64		150 (150)	180 (150)	210 (180)	240 (210)
For those difficult to get employed(disabled, etc.)					
Less than 45	150	300			
45~64	150	360			
Less then 30	(150)	(240)			
30~64	(150)	(270)			

* numbers in () are for part-time workers

Data is effective starting April 1, 2001.

Table 6.3 Duration of Old-Age Job Applicant Benefit

(unit: days)

	Years of being insured		
	Less than 1 year	1<= and <4 years	More than 5 years
Continuously older workers	30	60	75
Short-term workers	30	50	

3. Rise of Part-time and temporary employment in the young and the women

Partly due to high unemployment, and partly due to changing employment preferences (both by employees and employers), the number of part-time and temporary workers is rising, especially among young and women. Many of them do not or cannot participate in the Employment Insurance. This is due to the system's underlying concept that the Employment Insurance is security for livelihood for those who make their living with the wages received for their own labor, at the time they lose their jobs.

In response to the changing job market, the 2001 Reform of the Employment Insurance abolished some criteria for part-time and temporary workers to subscribe: the main one of them is the yearly income threshold (¥900,000/year). Now part-time or temporary workers working at least 20 hours per week, and works (or sent to work from temp agency) at a same workplace for more than 1 year are eligible to subscribe to the Employment Insurance.

III. Current Issues

1. High unemployment rate and financial crisis of the Employment Insurance

Now a legendary low unemployment rate until the 1980's had left a healthy financial balance of the Employment Insurance, and with this surplus, the system was extended to include services to prevent a lay-off and measures for the old age continuous employees. However, a rapid increase of the unemployment since the 90's has resulted the financial balance of the system to turn into red. The 2001 Reform has tackled the problem in some respects by separating the recipient of the Insurance by reasons of the termination. The effects of the Reforms are yet to be seen.

2. Treatment of elderly employees

However, the current system still favors old age employees in many respects (For example, the *Old Age Continuous Employment Benefits* and the insured period categorization of the *Unemployment Benefits*). The assumption of the Employment Insurance was that young people are hired easily and will continue to work full-time for the entire duration of their career. Some researchers believe these schemes distort the labour market. The treatment of old age employees must be re-examined closely in relation with the labour market and also other social security systems such as pensions.

Outline of the Employment Insurance System

		Employment Insurance	
1) Eligible subscriber		General Employees	Short-term special employees
2) Number of subscriber **		33.45 (million)	
3) Insurer		Government	
4) Premium rate: (as of April 2001)		(General)	(for Agro-Forestry)
Subscriber		0.60%	0.70%
Employer		0.95%	1.05%
5) Gov't Subsidy:		All	
Administrative cost			
Benefits paid		1/4 of benefits, 1/8 of Employment Continuation benefits	
6) Unemployment Benefits			
(A) Job Applicant Benefits			
① Basic Allowance		Insured for at least 6 months in one year prior to leaving the job	Special One-time Allowance: 50 day worth of the Basic Allowance
Requirements		60 to 80% of previous wage	
Amount		See Table 6.1 below	
Duration			
② Skill Acquisition Allowance		(1) ¥590/day for course fee, (2) ¥2,000/mo for special training, (3) up to ¥42,500 of transportation cost	
③ Lodging Allowance		¥10,500/mo	
④ Injury & Sickness Allowance		Same as the day rate of the Basic Allowance	---
(B) Employment Promotion Benefits		(1) Re-employment allowance: 15~120 days of Basic Allowance (disabled, etc.), moving expenses, job seeking expenses	Same as left, except (1)
(C) Study & Training Benefits		Those who have completed the study & training designated by the Minister with more than 5 years of insured period	
Requirements		80% of expense (up to ¥300,000)	
Amount			
(D) Continuous Employment Benefits			
① Old Age Continuous Employment Benefits			
Requirements		Those aged 60 to 64 year olds who have been insured for at least 5 years, and whose wage is less than 85% of the wage at 60.	---
Amount		25% of the wage after 60 (in case the current salary is 80-85% of the wage at 60, the rate is reduced gradually)	
Duration		Until the 65th birthday (In case re-employed after receiving unemployment benefits, 2 years if the remaining days of unemployment benefit is more than 200 days, 1 year, if 100 days.)	
② Child Care Leave Benefits		Those who has taken a child care leave to raise a child of less than 1 year old, and who have worked more than 11 days in a month for more than 12 months in the past two years	---
Requirements			
Amount		40% of wage before the leave (30% during the leave, 10% after returning to work)	
Duration		During the child-leave	
③ Family Care Leave Benefits		Those who has taken a family care leave and who have worked more than 11 days in a month for more than 12 months in the past two years	---
Requirements			
Amount		40% of wage before the leave	
Duration		Up to 3 months	

Schemes are as of April 2001.

		Seamen's Insurance
Continuously Employed Older Persons	Day-Laborers	Seamen
	0.05	0.07
	Government	Government
(for Construction)	Left and	
0.70%	¥48~88/day	1.00%
1.15%	¥48~88/day	1.00%
	All	All
	1/3 of benefits	1/5 of benefits, 7% of Employment Continuation benefits
Has been employed since before turning 65, and till after 65, and insured for 6 months in the year before termination	Paid 26 days of premium in the past 2 months	Insured for at least 6 months in one year prior to leaving the job
50 to 80% of previous wage	¥7,500~¥4,100/day	60 to 80% of previous wage
See Table 6.3.	13~17days	50~180days general, and 50~330days for involuntary terminated
---	---	(1) ¥590/day for course fee, (2) up to ¥42,500 for transportation cost
		¥10,500/mo
		60 to 80% of previous wage
---	Same as left, except (1)	(1) Re-employment allowance: 20~70 days of above rate (2) Moving expenses
		Continuous Employment Benefits: 25% of monthly wage

---	---	(1) Child-Leave Basic Allowance 25% * 30*Basic daily wage
		(2) Child-leave Returnee Allowance 5% * 30 * Basic daily wage
---	---	(1) Child-Leave Basic Allowance 25% * 30*Basic daily wage
		(2) Child-leave Returnee Allowance 5% * 30 * Basic daily wage

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Review of Population and Social Policy, National Institute of Population and Social Security Research.

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Acknowledgement

The author and the editor thank the many researchers both inside and outside the National Institute of Population and Social Security Research for valuable comments. We would like to give the special thanks to Dr. Yuichi Shionoya who has reviewed the material extensively for the last year's edition. Also we would like to thank the International Affairs Division of the Ministry of Health, Labor and Welfare.

We invite comments and suggestions to be reflected in future editions of this publication. Please send all comments to below or by e-mail: somuka@ipss.go.jp

PUBLISHED BY NATIONAL INSTITUTE OF POPULATION AND
SOCIAL SECURITY RESEARCH

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March 2001

(071101)