

Patterns and Determinants of Elderly Workers' Retirement in Japan

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Introduction

Population ageing is one of the most notable demographic shifts in developed countries. Thanks to steady advancements in medical knowledge and technology, life expectancy has dramatically extended, causing an increase in the number of older adults. At the same time, due to lingering low fertility, the working-age population has also decreased in number. As a result, in these countries, the proportion of the aged population has risen in tandem with the decline of fertility. It is the case with Japan. The percentage of people more than age 65 over the total population jumped threefold from 9.1% in 1980 to 27.7% in 2017 (Ministry of Internal Affairs and Communications 2019). Undoubtedly, such an unbalanced population structure will cause a severe shortage of labour force which generates national revenues, thereby bringing a severe impact on Japanese social welfare and pension systems in the near future.

While great concern has been shown for a scarcity of young workforce in Japan, little attention has been hitherto paid to the employment of aged people. It should not be, however, overlooked that an increasing number of elderly Japanese people continue to work in their 60s. In consequence, the pattern of job retirement has considerably changed over the past few decades. In particular, the proportion of elderly women staying in the labour force have increased noticeably. In fact, men's labour force participation rate between age 60 and 64 increased mildly from 77.8% in 1980 to 83.5% in 2018. Furthermore, the participation rate of women in the same age group jumped from 38.8% to 58.1% during the same period. In other words, these changes indicate that the timing of old-age retirement has delayed considerably, and the pattern of elderly people's life-course has significantly changed.

Although Japan has experienced such a dramatic transformation in the employment of elderly people, few attempts have been hitherto made to investigate the mechanism of their participation in and retirement from the labour market. Hence, the purpose of this study is, first of all, to examine determinants of elderly people's retirement in Japan. Secondly, we attempt to shed light on a gender difference in the labour force participation of aged workers.

In the following sections, we will first discuss the background of this research. Subsequently, the social situations of retirement in Japan will be discussed briefly. Thereafter, data and methods used in this study will be explained, followed by showing the results of our analysis. Finally, we will finish this paper with a summary and conclusion.

Theoretical Background

Previous studies have proposed various explanations regarding the retirement timing of elderly people. Although these explanations are mutually interrelated, they can be classified into two types: (1) Pull approach (2) Push approach (Ebbinghaus 2006; Kohli et al. 1991; Radl 2013; Riekhoff and Noora 2017). According to the pull approach, individual workers are assumed to make decisions on their participation in the labour market in the way that maximises their utility. Hence, if they get satisfaction with a job, they will continue to work. On the contrary, if they do not find any satisfaction with a job, they will exit from the labour market and get retired. In short, this approach maintains that elderly workers quit a job at the optimal timing based on the preference and calculation of utility maximisation.

From this point of view, the parameters of incentives to employment play a crucial role in determining the labour force participation of aged people. Although there are many types of incentives to work, it is widely accepted that monetary incentives have a significant influence on retirement. Since the consumption of goods and services is the primary source of one's utility after retirement, it follows that one's decision on when to get retired depends on the amount of money obtained from one's assets and old-age pension after retirement.

In addition, an employee's attachment to the labour market may also affect financial incentives. In many cases, a long and constant work career brings great wages and pension benefits. In contrast, interrupted careers, part-time work, and atypical employment may generate relatively small financial resources, leading to a reduction in incentives to work. Hence, it is likely that interruptions in a job career affect economic incentives for elderly employees to continue to work (Madero-Cabib 2015).

Moreover, the level of labour market attachment may be related to a gender gap in the timing of retirement. Viewed from the perspective of life-course, men tend to take stable and longer employment in the labour market than women. By contrast, female employees are more likely to experience the interruptions of work career during their childbearing and childrearing periods (König, 2017). These characteristics of employment may give different incentives to work, causing a gender gap in the timing of retirement.

Although the pull approach maintains that economic incentives play a crucial role in determining the labour force participation of elderly people, the direction of the influence which these factors have on retirement is not theoretically clear. It is, in the "status maintenance" hypothesis, assumed that greater economic incentives delay the timing of elderly employees' retreat from the labour market (Hardy 1991; König 2017). More specifically, according to this hypothesis, a higher income will increase the level of attraction for work, leading to later retirement. Furthermore, better education, good occupational positions, and long and constant job careers should also generate a higher income, motivating elderly people to continue to work longer. On the contrary, the "compensation" hypothesis holds that lower economic status increases the probability of elderly workers' extended engagement in employment. More concretely, due to the necessity of life after retirement, a smaller income drives elderly people to take later retirement. Similarly, since worse education, unfavourable occupational positions, and short and interrupted job careers bring lower wages, it is, this hypothesis, expected that employees with these socio-economic characteristics

postpone the timing of retirement. In short, socio-economically underprivileged workers are, in the "compensation" hypothesis, presumed to choose necessity-driven late retirement.

On the other hand, the push hypothesis emphasises the influence of institutional settings and structural constraints on elderly people's labour force participation. While it is, in the pull hypothesis, assumed that a worker's own decision is a critical element in his/her retirement behaviour, the push hypothesis holds that the exit from the labour market is not utterly determined by an individual's calculation of utility maximisation. For instance, even if elderly workers are highly motivated to work, the statutory retirement age may prohibit them from being employed. In other words, external and structural factors play an important role in the push hypothesis.

From the viewpoint of this hypothesis, an occupational structure may, first of all, affect the timing of retirement (Pampel 1985). The reason for this is that economic development undergoes the replacement of key industry sectors in response to the needs of the market. In this process, newborn and high profitable industries increase the demand for technologically sophisticated workers. While such a shift gives an advantage in employment to the younger generation, occupations engaged by the older generation become obsolescent and are in low demand. As a result, it is possible that a large number of old workers have difficulty in finding an alternative job and are eventually pushed out of the labour market. In fact, it is found that, compared with administrative and service workers in the tertiary sector, those in manual and blue-collar jobs in the secondary industry take early retirement (Radl 2013).

In the second place, it seems likely that physical and family situations restrain elderly employees from participating in labour. Admittedly, elderly workers' withdrawal from the labour market is, to a degree, derived from a voluntary decision or statutory regulations. Yet, workers health conditions such as illness and physical frailty also have an influence on the risk of retirement, leading to the retreat from employment. Besides, it should be borne in mind that the irreconcilable conflict between employment and family roles may hinder elderly workers from being employed (Madero-Cabib et al. 2016). More specifically, it seems possible that family responsibilities such as looking after a spouse and caring for aged parents bring an early retirement. In particular, where gender inequality places the heavy burden of housework and family-care on women, performing family responsibility limits their opportunities of working outside the home. Such constraints on employment are likely to accelerate the timing of retirement. On the other hand, a financial necessity for maintaining a household and bringing up children may keep elderly workers on participating in the labour force longer.

Situations of Retirement in Japan

While the push and the pull approach attempt to explain the pattern of elderly people's labour force participation from a different theoretical perspective, the results of empirical studies are mixed and varies from country to country (Kohli et al. 1991; Maltby et al. 2004; Schils 2008). These findings suggest that retirement pattern is not entirely determined by economic incentives alone. Rather, retirement patterns are affected by diverse labour market conditions and institutional arrangements. In short, it can be argued that the retirement of aged people is a joint product of incentive structures and complex constraints inherent in

each country.

Turning to Japan, economic incentives to extended participation in the labour market seems still strong. The reason for this is, first of all, the provision of old-age pensions is not so sufficient to maintain their household budget after retirement. The gross pension replacement rate from the Japanese mandatory public mandatory scheme was only 34.6% of the average earnings in 2017 (OECD 2017). Furthermore, this rate reached at most 57.7% of the average income, even if it was calculated by the sum of mandatory public mandatory and voluntary occupational pensions. In the second place, since Japan's wage system is, in many companies, based on a seniority pay scheme, longer employment without interruptions tends to bring a high income. Accordingly, older people are motivated to work even at an advanced age, although prolonged economic stagnation makes many firms difficult to retain the Japanese seniority wage system (OECD 2018). Besides, since the amount of employee pension which older workers receive after retirement is proportional to their lifetime earnings, a willingness to stay in the labour market for a long period is great. These monetary circumstances give great incentives for aged employees to continue to work.

On the other hand, institutional and structural obstacles in Japanese labour practices prevent elderly workers from participating in the labour force for a long period. In 1980, a great number of Japanese companies set the mandatory retirement age at 55. Owing to an extendedness in longevity and an increase in the older population, the Act on Stabilisation of Employment of Older Person prohibits employers from setting a mandatory retirement age of lower than 60. Moreover, this law obliges firms whose mandatory retirement age are lower than 65 to introduce measures to secure workers employment until age 65. Despite such employment regulations, fully 80% of Japanese companies still kept their retirement age at 60 (OECD 2018). Thus, it may be that these structural factors limit opportunities for elderly people to continue to be employed in the labour market.

Besides, it should be noted that retirement patterns may differ among occupations and socio-economic groups. More specifically, financial incentives and structural constraints do not always affect all groups of workers identically. For instance, it is likely that elderly workers in a declining industry encounter more formidable obstacles to the continuation of employment and receive intense pressure on early retirement. In contrast, high-skilled employees in a booming industry may be given various favourable conditions which keep them working in a firm, even if they reach an advanced age.

Such social heterogeneity is particularly important in considering a gender difference in retirement timing in Japan. It is well known that the pattern of life-course differs between men and women in Japan. More concretely, due to the bearing and rearing of infant children and the caring of aged parents in frail health, Japanese women tend to quit or interrupt a job more frequently than men. This irregularity and interruption in a job career will give female workers to relatively low earnings and a weak position in the labour market. In short, it can be argued that economic incentives and structural constraints differ between male and female employees. Hence, it seems likely that pull and push factors do not have an identical influence on men's and women's retirement behaviour. Taking these points into consideration, the influence of pull and push factors on aged people's retirement is complicated and different among socio-economic groups. Moreover, these two factors likely interact with gender.

Data and Methods

Data come from the International Comparative Survey on Marriage and Family in Japan. This is a nationwide panel survey that started in 2004. The targeted population of its first wave is Japanese men and women between ages 20 and 69. One hundred fifty thousand individuals were selected by two-stage stratified probability sampling, and its overall response rate amounted to 57.4%. The follow-up surveys were conducted for identical respondents in 2007, 2010, 2013 and 2016. In order to investigate the retirement patterns of elderly people, we selected male and female adults over age 50 who had been engaged in a job at the time of the first wave of the survey.

The present analysis employed a respondent's educational level and income to examine the influence of economic incentive factors on retirement. By contrast, a respondent's occupation, employment status, and career interruptions were used as constraint factors to the labour force participation. A respondent's and his/her spouse's health conditions were also included in our analysis. In addition, demographic and family variables were included in our analytical model. More specifically, a respondent's own age, sex, marital status, and his/her spouse's employment status were used as control variables.

On the other hand, a dependent variable of our analysis is a respondent's employment status. If respondents were engaged in a job, they were assigned to 1. On the contrary, if respondents got retired, we gave 0 to them. Discrete-time event-history analysis was used in the present study. The duration of employment was measured from the time of a respondent's age 50, and we regarded elapsed time until retirement as the length of period at which an event occurred. By applying event-history analysis to our dataset, we can examine the effects of incentive and constraints factors on retirement behaviour. In addition, we investigate a difference in the influence of these variables between men and women.

Results

First of all, respondents' education and income had a postponing effect on their retirement. More specifically, as elderly employees' wages became greater, the timing of their retirement was delayed. By the same token, compared with aged workers with low educational qualifications, those with high educational qualifications tended to get retired later. These findings indicate that economic incentives play a vital role in the retirement timing of elderly people.

In the second place, the type of occupation also showed a different impact on the timing of retirement. While self-employed and agricultural workers retired from their job at a relatively advanced age, the timing of retirement did not discernibly differ between aged employees in professional and service jobs. In contrast, elderly workers in a part-time job got retired earlier than those in a full-time job. As far as this result shows, it can be argued that employment status constrains the labour force participation of aged employees. In short, Japanese retirement patterns are partly affected by structural constraint factors. Thirdly, career interruptions had a different impact on men's and women's retirement. In concrete terms, women who experienced irregular employment and the frequent interruptions of jobs retreated from the labour market earlier than men. This finding suggests that vulnerability in a job career exerts a significant influence on women's than

men's retirement.

Discussion

The present study has, first of all, revealed that elderly workers' education and income have an influence on their retirement in Japan. More specifically, as employees had higher educational qualifications and wages, they tended to postpone their retreat from the labour market. These findings indicate economic incentives play an important role in the labour force participation of aged people in Japan. Secondly, it was, in this analysis, founded that employment status affected the timing of retirement. Workers who commanded a weak position in the labour market quitted their job earlier than those with a good position. Hence, it can be argued that the pattern of retirement is also affected by structural constraints. In other words, the retirement of aged Japanese workers is regarded as the joint product of socio-economic incentives and structural constraints which determine work-exit pathways. At the same, however, it should not be overlooked that an occupational career had a different impact between men and women. Irregular employment and job interruptions led to an earlier retirement for women than men. This evidence suggests that there is a gender gap in the impact of incentive and constraint factors on old-age retirement in Japan.

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