

Present Situation and Problems for Human Resources Management toward Continued Employment of Older Workers

Summary

[Awareness and Objectives for This Research]

As concerns have spread about the maintenance of social security systems, the patrimony of skills and technologies and the declining working population in response to the working force's structural changes accompanying the falling birthrate and aging population in Japan, how to secure employment opportunities for older people has come to the front as a social issue. Systems for companies to continue employment of workers longer are expected to play a key role in securing such employment opportunities. The Law concerning Stabilization of Employment of Older Persons was revised in 2004 to establish such systems. Since April 2006, the revised law has required companies to secure employment of workers until they reach the age for receiving basic old-age pensions by raising the mandatory retirement age, introducing a system for continued employment beyond the mandatory retirement age or eliminating the mandatory retirement age.

This report sheds light on companies' efforts to extend employment beyond the age of 60, including measures to meet the revised law, and factors affecting these efforts, based on a questionnaire survey and its analysis, and attempts to specify findings contributing to future relevant efforts.

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[Summary of This Report]

1. Questionnaire Survey of Companies

The questionnaire survey covered private sector companies with 300 or more employees in industries other than agriculture, forestry, fisheries and mining (5,000 companies were selected as samples classified for industry and size groups and 1,105 companies responded.) Major findings through the survey follow:

(1) Systems for continued employment beyond age of 60

Of the responding companies, 99.4% had mandatory retirement age systems. The mandatory retirement age was 60 for 94.3% of these firms, or 93.7% of the total respondents. Questioned about measures to secure employment beyond the age of 60, as many as 91.3% of the 1,098 firms having a mandatory retirement system introduced systems for reemployment of employees beyond the mandatory retirement age. Over the past three years, 16.9%, the highest rate, said they reemployed 90-100% of employees reaching the age of 60. Those that reemployed 70% or more of such employees accounted for some 40%.

The 1,051 firms with reemployment, employment extension or any other systems to continue employment of employees beyond the age of 60 were questioned about who would be subject to such continued employment systems. Of these firms, 24.6% said all hoping to remain employed would be subject to such systems in principle. Some three quarters (72.2%) said those who meet some qualification standards would be subject to such systems. Among specific standards, "the absence of health problems" was cited by 88.7% of the 759 companies having such qualification standards, "the willingness to work" by 83.5%, "good attendance and work attitudes" by 62.7% and "certain performance ratings" by 57.4%.

Of the respondents, 17.6% said those hoping to remain employed beyond the mandatory retirement age accounted for "70-90%" of those reaching the age in the past three years. The 90-100% range was chosen by 16.8%. At some 40% of the companies, 70% or more of employees reaching the mandatory retirement age hoped to utilize

systems for continued employment. Of the respondents, 757 companies that actually utilized systems for continued employment beyond the mandatory retirement age were questioned on percentage shares for employees who hoped and were allowed to utilize such systems in the past three years. Of these companies, 63.7% said that almost all hoping to utilize such systems were allowed to do so. The 70-90% range was chosen by 20.2%. This indicates that at companies with 300 or more employees that have utilized continued employment systems for employees above the retirement age, most employees hoping to utilize such systems are allowed to do so.

(2) Employment status for continued employment

Asked about type of employment for older people subject to continued employment systems, some 80% of total 1,051 firms with such systems said they would give them non-regular employee status. Those adopting the regular employee status for older people were limited to 12.0% (multiple answers allowed). For employees subject to continued employment, 89.1% of the companies had adopted full-time employment patterns. But 22.2% had adopted "the same number of working days as younger employees and shorter daily working hours." "A fewer number of working days and the same daily working hours" had been introduced by 26.3% and "a fewer number of working days and shorter daily working hours" by 18.7%.

As for workplaces for employees subject to continued employment systems, 90.1% of the companies chose usually the same workplaces as those where employees reached the mandatory retirement age. Respondents were allowed to select multiple alternatives. Jobs for continued employment systems were the same as those before the mandatory retirement age at 71.9% of the companies. At 60.0% of the firms, employees subject to continued employment beyond the retirement age become free from employee rating systems. At only 13.1%, such employees remain subject to rating systems.

The most frequently cited annual income range for employees subject to continued employment beyond the mandatory retirement age was between 60% and 70% of levels at the retirement age. Citing this range were 44.4% of companies with continued employment systems. Some 50% of levels at the retirement age were cited by 20.4%. Major factors considered for determining wage levels include "wage levels at the retirement age" (cited by 48.0%), "reception of continued employment benefits for aged employees" (27.6%), "reception of old-age pensions for active employees" (27.3%) and "wage levels at other companies in the same industry" (30.3%). Companies paying no bonus to employees subject to continued employment beyond the mandatory retirement age accounted for 30.3%, the highest share, followed by 27.1% paying certain levels of

bonuses based on monthly wages to all such older employees.

(3) Responses to Revised Law Concerning Stabilization of Employment of Older Persons

What measures did respondent companies take in response to the revised Law Concerning Stabilization of Employment of Older Persons? Companies that had taken measures meeting the revision before the actual revision accounted for 18.8%. But most of the respondents took some measures after becoming aware of the revision. The most frequently cited measure was the "creation of a reemployment system" (cited by 43.6%), followed by "revision of the reemployment system" (32.7%). Other measures, including the creation or revision of an employment extension system, were cited respectively by 3% or less. In manufacturing industries, the most frequently cited measure was the revision of a reemployment system (cited by 43.7%). In non-manufacturing industries, the most frequently cited was the creation of a reemployment system (46.6%).

Some 60% of the respondents consulted with labor unions or representatives of employees before taking measures responding to the revised law. Major topics at such consultations included "criteria for selection of employees qualified for reemployment" (cited by 70.1%) and "pay levels" (36.8%).

Of the 371 firms that revised reemployment or employment extension systems for continued employment of older employees, ① 39.1% expanded ranges of people subject to such systems, ② 49.3% raised or eliminated age limits on continued employment of older employees, and ③ 80.1% created or revised criteria for selection of people subject to such systems. The most frequently cited measure was the revision of such criteria.

(4) Utilization and treatment of older employees (aged at or above 50) and relevant problems

Major measures implemented for utilization of older employees aged at or above 50 for their career development and their treatment include "system of age limits on executive positions and fixed-term system" (cited by 32.2%), "job allocations based on physical capacity of older employees" (28.1%), and "improvement of health conditions for older employees" (27.4%). Major measures under consideration include "development of jobs suitable for older employees" (cited by 31.1%), "improvement of health conditions for older employees" (28.6%), and "job allocations based on physical capacity of older employees" (26.4%).

Frequently cited problems with utilization of older employees or their continued employment include "difficulties in securing jobs for older employees within their companies" (cited by 39.6%), "difficult treatment of older employees in managerial jobs"

(38.9%) and "difficult decisions on treatment during continued employment beyond the mandatory retirement age" (24.5%).

2. Human Resource Management for Continued Employment of Older Employees -- Summary of Analysis --

Part III of this report analyzes and considers companies' human resource management for continued employment of older employees, the impact of such continued employment on other areas and present problems with such continued employment, based on the JILPT survey on continued employment of older employees.

(1) Companies' Wage systems and continued employment of older employees

How would companies' wage systems affect continued employment of older employees? Chapter 1 of Part III gives a statistical analysis of answers to this question, based on the previous economic views.

Companies with flatter age-wage profiles tend to raise the mandatory retirement age. However, such correlation has turned out to be less significant statistically. The possibility of the mandatory retirement age being raised has had a statistically significant correlation with the ratio of new graduates to the total number of regular employees. A company with a higher ratio is less likely to raise the mandatory retirement age.

The ratio of employees applied aside for continued employment to total employees reaching the mandatory retirement age of 60 has a statistically significant correlation with their wage cut ratio. The larger the wage cut is, the lower the continued employment ratio is. This result reverses a foregoing deduction, indicating that the wage cut may affect the ratio of those hoping to remain employed to total employees reaching the mandatory retirement age of 60. An analysis using the ratio of employees hoping to remain employed after reaching the mandatory retirement age of 60 as a dependent variable indicated that the ratio of employees hoping to remain employed can decline significantly as the wage cut becomes sharper. This may mean that if a wage cut for employees above the mandatory retirement age is sharper, employees hoping to remain employed after reaching the age may decline, resulting in a lower ratio of older employees subject to continued employment.

(2) Introduction of shorter working hours and fewer working days for employment of older workers

As indicated obviously by the JILPT survey on continued employment of older

employees, some companies have already introduced shorter daily working hours and fewer working days for older employees subject to continued employment as their working styles. What are characteristics of these companies in business and personnel management and utilization of older workers?

A statistical analysis (Chapter 2 of Part III) indicated that companies implementing retirement preparation programs and life-planning seminars have a greater possibility of introducing shorter working hours and fewer working days. Companies that move employees in accordance with their voluntary reports or responses to in-house staff recruitment offers also have a greater possibility of introducing shorter working hours and fewer working days for older employees. In addition, companies with negative views about overall older people have a greater possibility of introducing shorter working hours and fewer working days for older employees. A representative negative view is that reeducation and retraining are required for utilization of older workers. Another is that special considerations should be given to illness and health management.

(3) Corporate pension schemes and continued employment of older employees

Companies' pension plans reflect their considerations given to employees. Companies with schemes emphasizing defined benefits give greater considerations to old-age living cost of employees than those putting an emphasis on defined contributions. Such considerations weaken in the following order: ① companies with employee pension fund and qualified retirement pension plans, ② companies with rule- or fund-based defined-benefit pension plans, ③ companies with defined-contribution pension systems, ④ companies with cash balance plans, and ⑤ companies with no corporate pension plans.

If corporate pensions plans reflect companies' considerations given to employees, systems for continued employment of older employees may change depending on corporate pension plans to be adopted. Based on this assumption, Chapter 3 of Part III a priori divided companies by corporate pension plan into three categories -- 1) companies giving full considerations to employees, 2) companies giving some considerations to employees, and 3) companies giving no considerations to employees -- to check differences between these categories in continued employment of older workers.

A tentative conclusion of this analysis is that corporate pension plans cause no clear differences between the categories in designing and operating systems for continued employment of older employees. This may be because many of older employees subject to continued employment cannot join current corporate pension plans because of their old ages, and at present, operations of corporate pension plans have little effect on

continued employment of older workers.

(4) Realities of and medium- to long-term problems regarding continued employment of older workers

Chapter 4 of Part III reviews the JILPT survey on continued employment of older employees and considers relevant medium- to long-term problems. Regarding the objective for revising the Law Concerning Stabilization of Employment of Older Persons, explanations on the submitted bill stated, "In order to allow willing-to-work older persons to continue playing a key role as supporters of the society under the prediction of a declining workforce population amid the fast-falling birthrate and fast-aging population, Japan must develop infrastructure for older persons to continue working at least until reaching the age for receiving pension benefits as far as they are willing and able to do so." This chapter considers to what extent employment and pension systems are linked. More specifically, it considers ① whether almost all employees hoping to remain employed after reaching the mandatory retirement age have been allowed to do so, ② whether older employees subject to continued employment are put under due working conditions including sufficient wages, and ③ whether the currently revised law has steadily contributed to extending employment.

A finding is that more than 80% of companies employ more than 70% of older workers hoping to remain employed, indicating steady progress in continued employment of employees beyond the mandatory retirement age of 60. Another finding is that many companies took new measures for continued employment of older workers, including an expansion in the range of older workers subject to continued employment and higher age limits on continued employment, after becoming aware of the revised law, indicating great effects of the revised law. However, wage and bonus cuts for older workers for continued employment have been large. More efforts may be required to realize a situation where employment and pension systems are linked together well for older persons' life security. Meanwhile, companies that in principle continue employment of all older workers hoping to remain employed are compared with those that use some standards for selecting older persons for continued employment. It was found that the former group gives higher ratings to older workers and is more positive about utilization of older persons.

Amid the fast-falling birthrate and fast-aging population, the next step for a closer linkage between employment and pension systems may be the development of sufficient infrastructure for employment continuing until the age of 65 or a steady progress in age-free employment management. At present, however, there are some problems: ①

Although a rising number of companies have adopted a flatter wage curve and eliminated age-based wages in terms of age-free treatment and job allocation, these measures are not necessarily designed for positive utilization of older workers. ② Companies are little conscious of implementing positive capacity building of middle-aged and older employees. ③ Regarding a dual system for continuation of employment of older persons (to accept both older employees hoping to remain employed on a full-time basis and on a non-full-time basis with shorter working hours and fewer working days), many companies have changed periods and styles of employment, and ratings while keeping working styles and job contents almost unchanged from those before the mandatory retirement age of 60. Meanwhile, little progress has been achieved in the introduction of shorter working hours and fewer working days.

3. Problems for Future Research

The revised Law Concerning Stabilization of Employment of Older Persons has prompted companies to expand the range of older employees for continued employment and increase the number of such employees subject to continued employment. As far as the expansion of employment opportunities for 60-year-old and older people is concerned, the revised Law has contributed to further utilization of older persons.

However, we still see many problems: ① Many companies have adopted reemployment systems while reducing wages and bonuses sharply for older employees subject to continued employment. ② The number of firms introducing shorter working hours and fewer working days is still limited. ③ Education and training programs for 50-year-old and older employees are limited. Many problems emerging from the JILPT survey are the same as those found through hearings from electrical machinery industry firms between late 2004 and the summer of 2005.