
Mizuho Economic Outlook & Analysis

December 20, 2019

Expanding the 20% medical fee copayment to include seniors aged 75 or over

Review of an interim report of the planning meeting on a social security system oriented to all generations

< Summary >

- ◆ The Japanese government compiled an interim report of the planning meeting on a social security system oriented to all generations on December 19, 2019. The report features reform plans that cover the entire spectrum of social security, including pensions, labor, healthcare, disease prevention and nursing care.
- ◆ With Japan's baby boomer generation reaching the age of 75 in 2022, the government has proposed the idea of the elderly sharing a greater portion of the social security burden based on their ability to pay, and not on their age. For example, people aged 75 or over with a certain level of income will pay a 20% copayment of medical expenses. But the government also shelved many other reform proposals.
- ◆ Other measures include expanding the Employees' Pension Insurance coverage to part-time workers and securing employment opportunities up till the age of 70. It is necessary, however, to take further steps toward reform, such as a more thorough review of health insurance benefits, to ensure the sustainability of the country's social security system.

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1. Interim report of the planning meeting on a social security system oriented to all generations

The Japanese government compiled an interim report of the planning meeting on a social security system oriented to all generations on December 19, 2019. Since setting up the meeting in September of the same year, discussions have been held on social security reform.

The interim report first presents a basic vision that reconsiders the balance between “people who provide support” and “people who receive support” amid Japan’s declining birthrate and aging society by creating an environment where people of any age can study and work to maintain the number of workers. In view of the baby boomer generation (born in 1947-1949) reaching the age of 75 in 2022, the report also refers to further discussions about the elderly sharing the financial burden of social security based on their ability to pay rather than age as a means to curb the increasing burden on the current working generation.

The following sections closely assess the major reform plans in each field presented in the interim report and examine the challenges of social security reform that remain to be addressed.

2. Pension reform

Regarding pension reform, the interim report proposes (1) increasing the options to start receiving pension benefits, (2) extending the eligibility of the Employees’ Pension Insurance (employee insurance), (3) reconsidering the old-age pension for active employees, (4) reexamining private pension plans (**Chart 1**).

Among the proposed reforms that could have a significant impact are (2) extending the eligibility of the Employees’ Pension Insurance and (3) reconsidering the old-age pension for active employees.

Extending the eligibility of the employees’ pension to part-time workers is a major change to the pension system and will apply to the Employees’ Health Insurance as well. Under the current system, part-time workers hired by businesses enrolled in the employee pension scheme with working hours of roughly 30 hours or longer a week are eligible for the employee pension system. But those who work between 20 and 30 hours per week are also entitled to participate in the pension plan as part-time insured workers if they meet certain requirements.¹ The reform proposes lowering the size of companies applicable to the employee pension scheme from the current 501 or more workers to 101 or more in

¹ Companies with 501 or more employees, excluding students, with an expected employment period exceeding one year and a monthly wage of 88,000 yen or more. Companies with 500 or less workers are also applicable through a labor agreement.

October 2022 and 51 or more in October 2024. Expanding the coverage to part-timers working for businesses with more than 50 workers is expected to add approximately 650,000 people able to qualify for the employees' pension.

Chart 1: Major pension reform plans

		Current	Proposed changes
(1)	Increasing options to start receiving pension benefits	60 to 70 years old	60 to 75 years old
(2)	Extending the eligibility of the Employees' Pension Insurance (employee insurance)	Part-time workers	October 2022: Company with 101 or more workers October 2024: Company with 51 or more workers
		Expected working period of one year or longer	Expected working period of over two months
		Self-employed individual employing five or more workers (excluding certain types of businesses)	Adding such professions as lawyers, accountants, and labor and social security attorneys to applicable businesses
(3)	Reconsidering the old-age pension for active employees	Pension suspension for workers aged 60-64 with income exceeding 280,000 yen a month	Raising the threshold amount to 470,000 yen a month
		Revising pensions after retirement for workers who have acquired pension rights (at the time of retiring or reaching age 70)	Revising pensions every year for employees aged 65 or older (regular pension revisions for active employees)
(4)	Reexamining private pension plans	Participation eligibility age: Below 65 for corporate type and below 60 for individual type Pension start time: Age 60-70	Raising the participation eligibility age and providing flexible start times

Note: The expected working period of part-time workers currently exceeds one year, but if part-time workers with an employment contract term of less than a year have signed a contract with possible renewal or renewed their contract before, they are recognized as working for an expected period of one year or longer and are therefore eligible for the Employees' Pension Insurance.

Source: Made by MHRI based upon the Planning Meeting on a Social Security System Oriented to All Generations, *Interim Report of the Planning Meeting on a Social Security System Oriented to All Generations* (December 19, 2019) and others.

The report mentions two revisions to the old-age pension for active employees, in which all or part of their pension benefits will be cut according to their income. First, it suggests that the threshold amount of income subject to pension suspension for those aged 60 to 64² be raised from the current 280,000 to 470,000 yen a month. This higher threshold is expected to increase the amount of pension payouts to about 85% of the elderly between 60 and 64 years old with their pensions suspended. However, the impact of this revision will be limited to certain generations because pensions will not be provided to those aged 64 or younger, specifically men (born after April 2, 1961) after FY2025 and women (born after April 2, 1966) after FY2030.

The second is a regular revision of the old-age employee pension for seniors aged 65 or older, with the amount of their benefits revised every year while working, so that they

² The old-age pension for active employees is a scheme for reducing pension payouts if the combined total of monthly wages and pension exceeds the threshold amount: 280,000 yen for people aged 60-64 and 470,000 for people aged 65 or older. The threshold amount is revised each fiscal year according to variations in prices and wages.

receive more pension at an earlier age. Under the current system, the amount of pension is revised when elderly workers retire or reach age 70³ based on their employee pension insurance period after 65. This revision is aimed at boosting the economic base during the prolonged period of old age by encouraging the elderly to work longer.

The government is expected to submit the necessary bills on pension reform to the ordinary session of the Diet in 2020.

3. Labor system reform

Labor system reform features (1) securing employment opportunities up till the age of 70, (2) promoting the recruitment of mid-career and experienced professionals, (3) expanding side jobs and multiple jobs, and (4) supporting flexible working styles such as freelance work.

The biggest reform is to secure employment opportunities up till the age of 70. The interim report points out that expanding job opportunities through introduction from previous workplaces is essential as it is a common practice for job seekers in their 60s. In addition, with many elderly people seeking flexible working styles, the government is expected to establish a legal framework to provide them with a wide variety of job opportunities to work until 70. Specifically, the report lists four employment measures that include (a) abolishing the mandatory retirement age, (b) raising the retirement age to 70, (c) extending employment (including related employers) until 70, and (d) enabling reemployment by other employers, with (c) and (d) designed for seniors who have reached the retirement age or whose continued employment until 65 has terminated. The report also proposes two measures other than employment to support the elderly who retire or whose extended employment ends at 65 until they reach 70 by (e) allowing them to sign outsourcing contracts with self-employed individuals (freelancers and entrepreneurs) and (f) encouraging them to participate in projects organized by their employers or programs run by NPOs and other organizations that are outsourced, supported, or funded by their employers.

Legislation is likely to be drafted in two stages: requirements to make efforts in the first stage and obligations in the second stage. The government intends to submit the first bill at the ordinary session of the Diet in 2020, expecting it to go into force in April the following year.

Meanwhile, to promote the recruitment of mid-career and experienced professionals, the government has decided to require large enterprises (301 or more employees) to publicly release their recruitment ratio of mid-career and experienced workers to regular

³ People insured by the employees' pension are disqualified at age 70 and are not required to pay contributions afterwards.

employees, aiming to put forward the reform bill at the ordinary session of the Diet in 2020.

Furthermore, the report notes that increasing side jobs and multiple jobs will contribute to technological innovation, entrepreneurship, and preparation for new career paths, while it is necessary to create an environment where people can choose freelance work as one of the diversified working styles. In response, the government plans to discuss a legal framework for understanding and managing working hours as well as labor policies to protect workers before compiling a final report in the summer of 2020.

4. Health insurance reform

The main focus of the health insurance reform is on reviewing the copayment rate of medical expenses for the elderly aged 75 or over. The current rate, in principle, is 20% for people aged 70-74, 10% for those aged 75 or over, and 30% for seniors in both age groups with income comparable to the current workforce (**Chart 2**). The interim report proposes upping the rate to 20% for the elderly aged 75 or over with income exceeding a certain amount, excluding those with income comparable to the current workforce.

Chart 2: Copayment rate of medical expenses

	General income earners	People with income comparable to the current workforce
Age 75	10% → 20% for seniors whose income exceeds a certain amount	30%
Age 70	20%	
Before compulsory education	30%	
	20%	

Source: Made by MHRI based upon data from the Ministry of Health, Labour and Welfare.

This revision is aimed at curbing the growing burden on the working generation in view of the baby boomer generation turning 75 in 2022 and beyond. The report specifies that the final report will set the target of implementing this reform by FY2022 at the latest. Attention is focused on how the income criteria for the 20% copayment will be determined in future discussions.

Meanwhile, to prevent patient congestion at major hospitals and strengthen primary care, the report refers to widening the system adopted by major hospitals to charge outpatients fixed-sum payments for visits without a referral letter issued by medical institutions. The current fees for first consultations and follow-up visits are set at 5,000

yen and 2,500 yen or over (for medical), respectively, but these fees will be raised and the charging system expanded to include hospitals with 200 beds or more.

5. Reform on disease prevention and nursing care

The interim report presents the government's further strengthening of insurer support (prefectures and municipalities) through subsidies based on their efforts to prevent disease and promote health as well as financial incentives for enhancing nursing care services. The report also touches on advancing a highly sustainable nursing care service system.

Currently, the nursing care insurance task force in the Advisory Council on Social Security is reviewing the benefits and burdens of the nursing care insurance system.

6. Challenges of developing a sustainable social security system

In this interim report, the government highlights reconsidering the balance of social security between "people who provide support" and "people who receive support," in line with promoting the employment of elderly workers, while presenting labor and pension reform plans to secure the income of seniors after retirement. It is also notable that to brace for baby boomers reaching the age of 75 in 2022, the government has proposed the idea of the elderly sharing the social security burden based on their ability to pay rather than age, for example, by raising the copayment rate of medical expenses to 20% for those aged 75 or over who have a certain level of income.

However, the government dropped many reform proposals from the report. First, it did not include implementing negative revisions of pensions based on macroeconomic indexation. As negative rates help retain pension benefit levels for future generations, such measures as limited revisions are necessary to maintain a stable pension system. In addition, while the report mentions expanding the Employees' Pension Insurance coverage for part-time workers to companies with 51 or more employees in October 2024, it makes no sense for government-run social insurance coverage to depend on company size. The government should strive to include all companies and present a timetable to work toward future expansion.

Given that the country's population aged 75 or over, who account for the highest healthcare and nursing care costs per person, is expected to grow in the coming years, it is necessary to take further steps to reexamine the burdens and benefits in order to develop sustainable healthcare insurance and long-term care insurance systems.

Ahead of the final report in the summer of 2020, the government needs to discuss reforms even further to fully realize a social security system oriented to all generations.