

Social Security Systems in Japan: Lessons Learned for Thailand

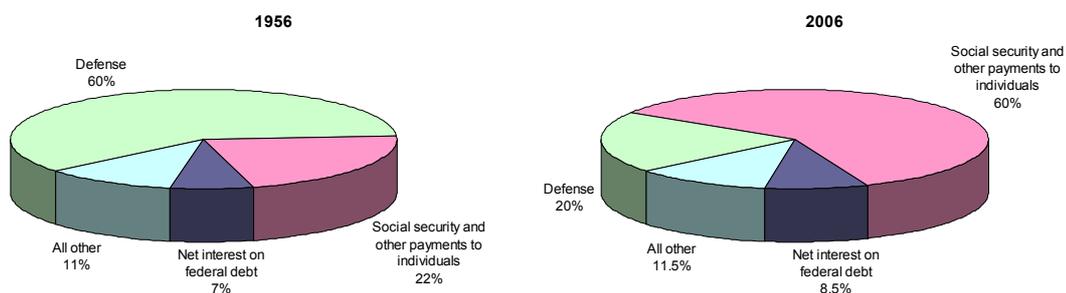
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I. Introduction

“Everyone, as a member of society, has the right to social security...” The statement is in Article 22 of the UN 1948 Universal Declaration of Human Right. It emphasizes that social security is an important part of human right and every nation agrees on.

The recent government budgets of many countries show that their governments have paid more attention to social security expenditure. In the U.S., federal spending for social security and other payments to individuals increased from 22 percent in 1956 to 60 percent in 2006 (Figure 1). On the contrary, federal spending on defense reduced from 60 percent to 20 percent during the same period. In Japan, social security related expenditure increased from 15 percent of total general expenditure in 1960 to 43 percent in 2005.²

Figure 1 U.S. Federal Spending 1956 and 2006



Source: Samuelson (2007)

In Thailand, the system of social security has been developed since 1901. The system has extended little by little and it is still far from perfect (in term of the OECD standards). The current social security systems of Thailand have at least three policy issues to be improved. First, the coverage of social security for private employees is low. Prior to 2002, when the Social Security Act was enforced to private enterprises employing at least ten workers, many employees were not covered by the mandatory social insurance system. After the Social Security Act had extended to cover micro enterprises (employing less than 10 employees) in 2002, the system could not enforce about 20 percent of private

¹ I would like to thank Ms. Reiko Suzuki and Mr. Ryuichi Ushiyama for their kind help on searching information (in Japanese) to answer many of my questions.

² MOF. www.mof.go.jp/english/budget/pamphet/cjfc2006.pdf. p. 11.

employees to join the mandatory system. The low coverage of the system is quite obvious in the north and northeast, and in the construction sector.

Second, the social insurance system in Thailand provides the unemployment insurance (UI) benefit to seasonal unemployed. In 2004, when the unemployment insurance benefit was started, there were 50,318 beneficiaries. However, the growth of beneficiaries is accelerating when insured persons have learnt about the system. In 2005, the number of beneficiaries increases to more than 220 thousand, with the growth rate of 340 percent. This pattern could cause a large drain of the UI fund in the future. The current UI system penalizes those who are employed.

Third, only a small group of Thai labor force has income support for the old. These groups include government, state enterprise, and private employees. They account for only one-third of Thai labor force. The security of workers without old age income security is at risk of poverty. Social security benefit could significantly alter the poverty of the elderly (Engelhardt and Gruber, 2004).

Considering that the social security systems in Japan have been developed before Thailand and its systems had gone through many reforms, it is worth wide for Thailand to learn from Japanese social security systems. Japan used to have a large share of workers in the agriculture sector when the social security systems were developed. How Japan makes the social security systems sustain in a dynamic environment is a very important issue to learn.

II. Brief Background on Population and Employment

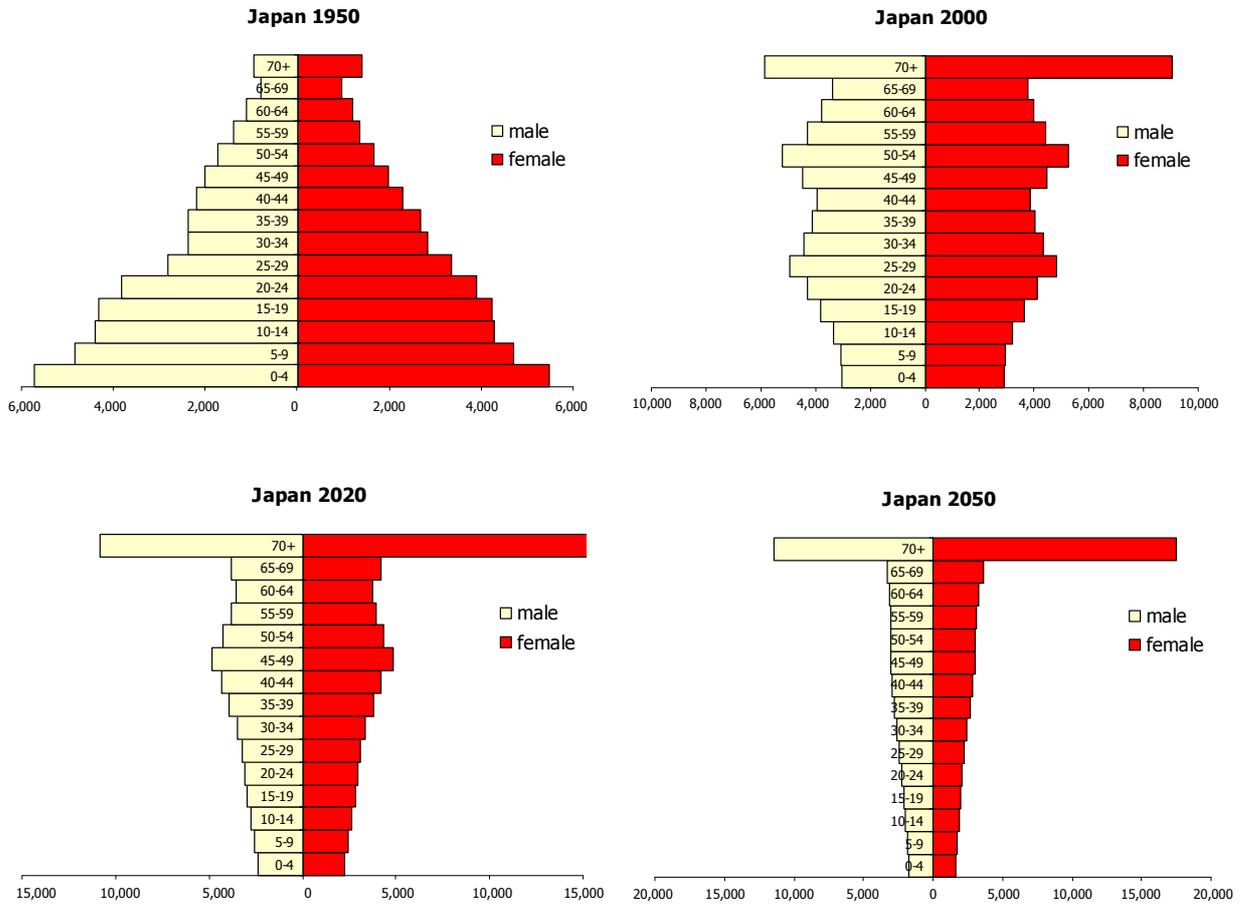
Demographic structure in Japan has been a big and serious issue. Japan had a negative population growth rate during the WW II. The population growth (4.99%) was highest right after the end of the WW II.³ Between the period of 1930 and 1950, population in Japan increased by almost 19 million (from 64 to 83). Another period of high population growth was between 1970 and 1980 when the baby-boomers started their family. During that period, population increased by 13 million with the highest growth (2.33%) in 1972.

Japan is very successful at controlling low birth and death rates. Abortion has been made legal. In 1967, about 35 percent of married women experienced induced abortion (IPSS, 2006). Total fertility rates have been declining and life expectancy has increased. Total Fertility Rates declined from 3.65 children per woman in 1950 to 2 in 1960 and to 1.29 in 2000 (MHLW). Life expectancy at birth for males increased from 65 in 1960 to 78 in 2002 and for females increased from 70 to 85 (Japan's Statistics Bureau). These have transformed the pyramid-shaped population structure to a T-shaped one (Figure 2). According to the population projection by IPSS, the year of 2007 is the first year that Japan has a decline of its population after the WW II.

The proportion of older population will inevitably increase in the future. In 2000, about 17 percent of 127 million populations were older than 65 years old. In 2020, when the number of population declines to 124 million, about 28 percent of the population will be older than 65. The proportion will increase to 36 percent in 2050 when the number of population decline to 101 millions. This statistics could make the current youth unhappy when they enter the labour market in the future.

³ Population statistics is from National Institute of Population and Social Security Research (IPSS) www.ipss.go.jp/p-info/e/PSJ2006.pdf.

Figure 2 Population Structure in Japan (unit: 1,000)



Source: IPSS

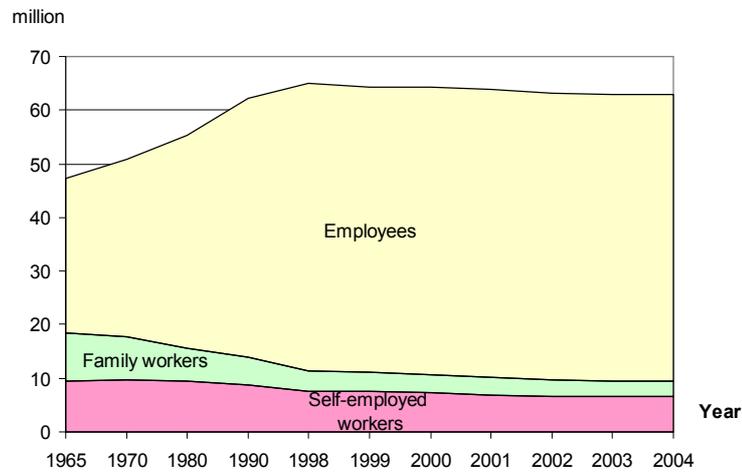
Population has transferred their economic activities from agriculture to non-agriculture sector. About 50 percent of labour forces used to work in agriculture sector in 1950. Fifty years later, the proportion phenomenally reduced to 5 percent.⁴

Currently, the majority of Japanese labour forces engage in formal employment, *i.e.* work as employee or *salaryman*. In 2004, of all 63 million labour forces, about 85 percent are employees (Figure 3). The proportion of family workers moved in an opposite direction with that of employees as the economy developed. In 1965, about 20 percent of labour forces were family workers. But, in 2004, family workers share only 5 percent of the labour force.

It is quite obvious that females have had lower job opportunity than males. More than 90 percent of males at prime age group participate in labour forces (Figure 4). For females, labour force participation rates ranged between 42 and 61 percent in 1975. The trend has been improved gradually. However, it is common to see families which husband is a single-income or major earner. About 82 percent of household income are from head of household's wage (JIL, 2006).

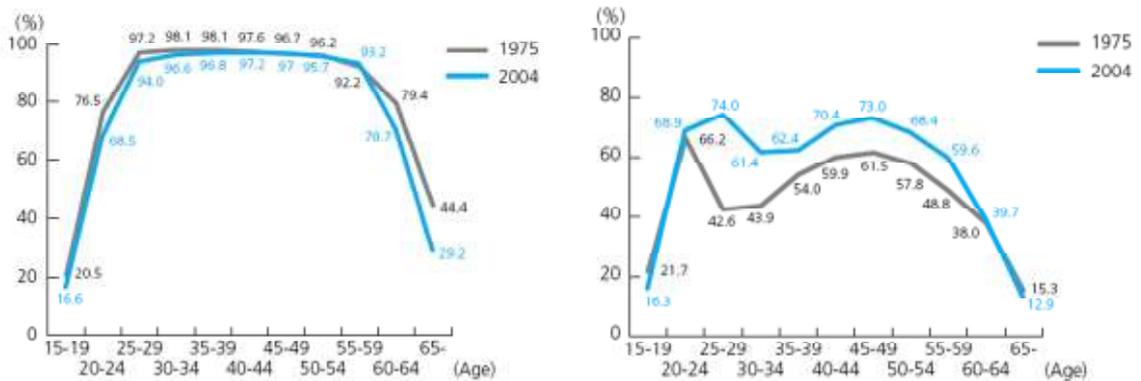
⁴ www.mhlw.go.jp/english/wp/l-economy/2005/dl/02-01-02.pdf.

Figure 3 Employment by Work Status in Japan



Source: JIL (2005)

Figure 4 Labour Force Participation in Japan



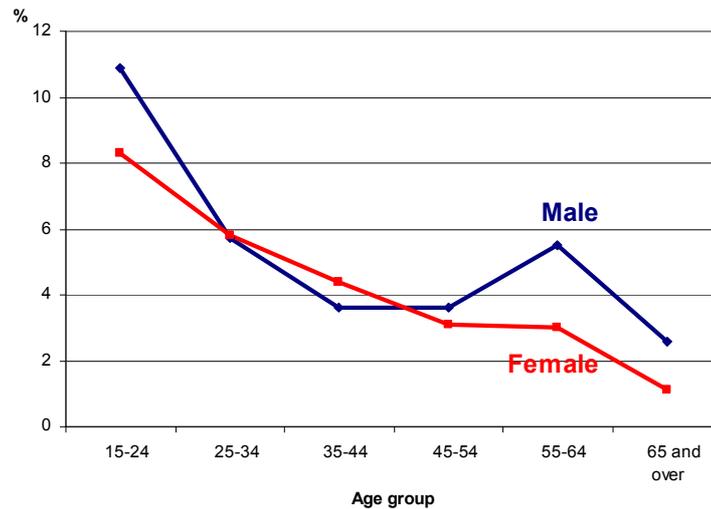
Source: JIL (2005)

The labour force participation rate for older population is generally low, not except Japan. In 2004, about 44 and 13 percent of older male and female labour forces worked. Japan might not be able to afford this low elderly labour force participation. In the future, Japan is expected to have a high proportion of elderly and high public burden on pension payment. Pension benefit itself can encourage retirement. Using micro data, Gruber and Wise (2002) showed that a reform that delayed benefit eligibility by three years would likely reduce the proportion of men aged 56-65 leaving the labour force. For Japan such proportion would reduce from 45 percent to 25 percent.

The unemployment rates in Japan were low compared to other OECD countries; probably due to the lifetime employment. The lifetime employment used to be common albeit it has been changed recently. The highest unemployment rate was at 5.5 in 2002. It

has gone down to 4.9 in 2004. About 42 and 38 percent of the unemployed in 2002 and 2004 were involuntarily job losers. The unemployment rate for those in age group 25-44 is lower among male than female (Figure 5). Female labour force participation for such age group is low.

Figure 5 Unemployment by Age Group in Japan in 2004



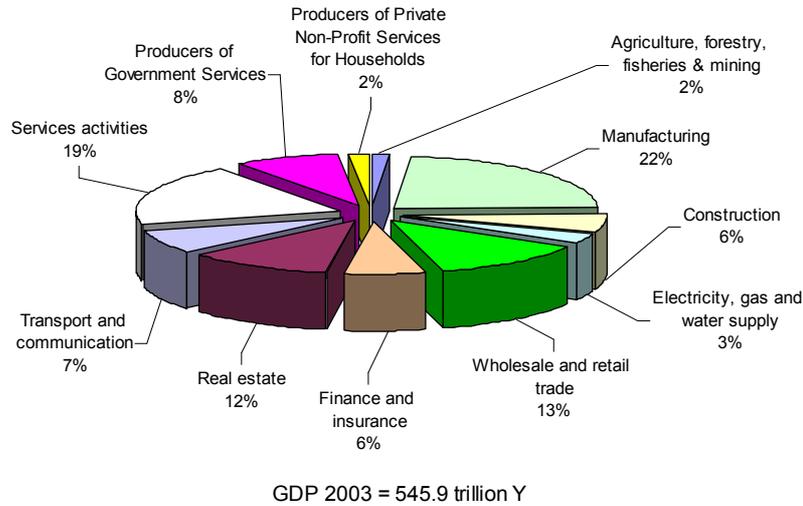
Source: JIL (2005)

Japan's economy, compared with Thailand, is about 7 times larger than Thai's and its per capita income is about 4 times higher. In 2005, its GDP at international dollars was 3.9 trillion and per capita income (PPP) was 30.6 thousand (IMF, 2006). It is shown that, in 2003, the major contribution to the GDP was from manufacturing and service sectors (Figure 6). Share of agriculture sector to GDP was only two percent. As mentioned earlier, population involved in agriculture activities is low. In 2000, only 1.8 percent of Japanese household's sole income was from agriculture and about 2.3 percent of household earned agriculture and non-agriculture mixed income.⁵

Average monthly household income and expenditure in 2003 were 525 and 410 thousand yens. Living expenditure shares 80 percent and taxed and social insurance contribution shares 20 percent of total household expenditure (Figure 7). Two largest expenditures were food (18%) and transportation (11%). Medical care expenditure was three percent of total expenditure.

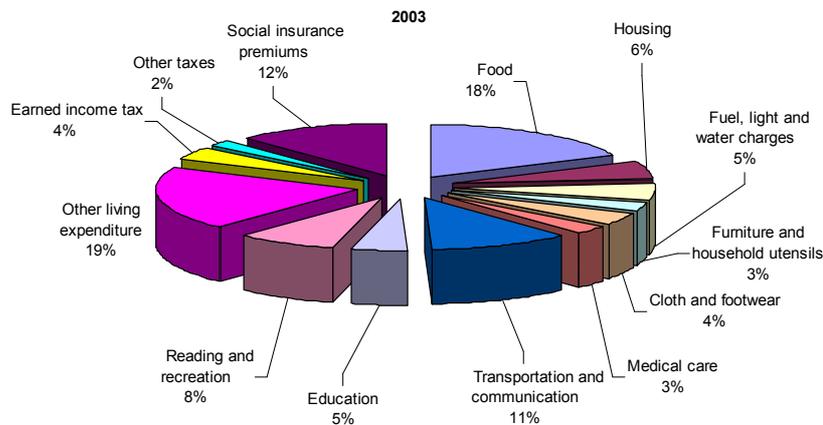
⁵ Ministry of Internal Affairs and Communications, www.stat.go.jp/english/data/nenkan/index.htm.

Figure 6 Share of Economic Sectors to GDP in Japan



Source: JIL (2005)

Figure 7 Household Expenditure



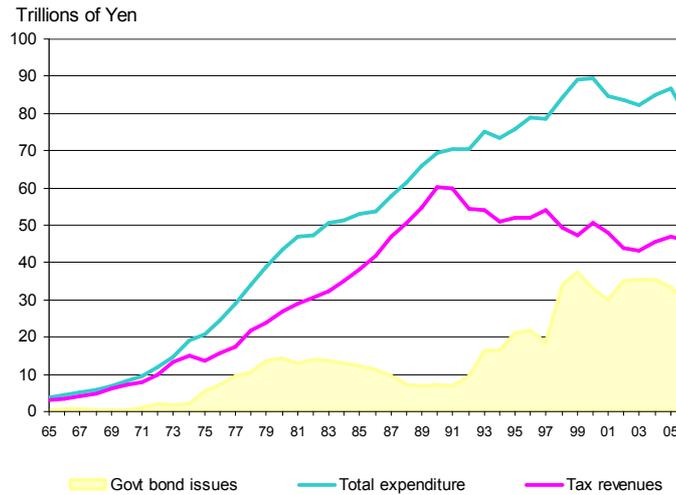
Source: JIL (2005)

The size of Japanese central government is about 20 times of the Thai government. Central government expenditure was around 38 percent of GDP in 2001, higher than U.S (35%), but lower than U.K. (40%), Germany (48%), France (53%) and Sweden (57%).⁶ In fiscal year 2005, Japan's general account expenditure was 82 trillion Yen. About 25 percent were spent on social security while 22 percent were for national debt service. Only 54 percent of government expenditures were financed from tax revenues and 42

⁶ Budget Bureau, Ministry of Finance, Understanding the Japanese Budget 2004. www.mof.go.jp/english/budget/brief/2004/2004.pdf.

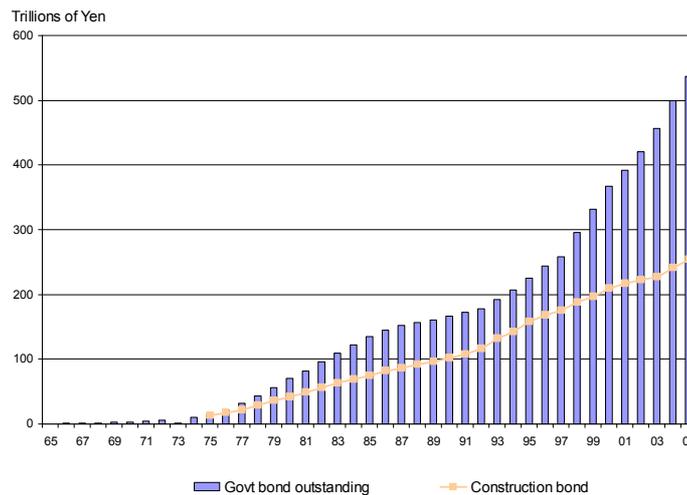
percent were financed by issuing government bond.⁷ The gap of government expenditure and tax revenue has been widened since 1990 (Figure 8). This has made accumulated government bonds outstanding phenomenon (Figure 9). In 2005, accumulated government bonds outstanding became as large as 12 years of general account tax revenues. The construction bonds were the major parts of accumulated bond outstanding during 1975-78 and 1993-97.

Figure 8 General Government Expenditure and Tax Revenues



Source: Ministry of Finance

Figure 9 Government Bond Outstanding



Source: Ministry of Finance

⁷ MOF. www.mof.go.jp/english/budget/pamphet/cjfc2006.pdf.

III. Japan's Current Social Security Systems

We can say that Japan is a welfare state. The social security systems are comprehensive. The systems protect many kinds of risk and circumstance that might occur to an individual, including health risk (e.g. sickness or accident), employment risk (e.g. work-related sickness or unemployment), life cycle phenomena (e.g. birth, death, or old age), and natural risk (e.g. natural disaster). However, to learn the lessons most relevant to the Thai social security policy, we will focus on pension, health insurance and employment insurance systems in Japan.

Japan has a long history of social security development. Even before the WW II, Japan already had many laws protecting security of their people, for example Health Insurance Law (for workers) 1927, Poor Relief Law 1929, and Social Services Law 1938. However, we might be able to say that the foundation of today Japan's social security is from Article 25 of the Constitution of Japan (1947), which states that "*All people shall have the right to maintain the minimum standards of wholesome and cultured living and in all spheres of life, the State shall use its endeavors for the promotion and extension of social welfare and security, and of public health.*"⁸ The following table summaries the development of Japan's social security systems after the WW II.

Table 1 Social Security Development in Japan after WW II

Year	Major Laws and Events
1946	Daily Life Security Law
1947	Child Welfare Law
1949	Law for the Welfare of People with Physical Disabilities
1951	Social Welfare Service Law
1950	(New) Public Assistance Law
1954	Revision of Employees' Pension Insurance Law
1955	Start talking about universal pension One-third of population (mainly agriculture workers, self-employed, employees in small firms) had no health insurance
1958	Revision of National Health Insurance Law with 4 years implementation plan
1959	National Pension Law
1961	Implementation of universal health insurance and universal pension (April)
1963	Welfare Law for Elderly
1966	Revision of National Health Insurance Law
1969	Revision of Employees' Pension Insurance Law
1971	Child Allowance Law
1973	Revision of Welfare Law for Elderly. Medical and pension insurance expanded. Free medical services for elderly. Raise pension level. Price/wage index for pension benefit was introduced.

⁸ MHLW, www.mhlw.go.jp/english/wp/wp-hw/vol1/p1c1s1.html.

Year	Major Laws and Events
1974	Employment Insurance Law
1982	Health service cost sharing for people age 40 and more.
1984	Revision of National Health Insurance Law Coverage of medical costs of employees reduced from 100% to 90%.
1985	Revision of the pension system Introduction of basic pension to all the citizens Establishment of women's right to pension Introduction of disability basic pension Revision of Medical Service Law
1987	Revision of Health and Medical Service Law for Elderly
1988	Revision of National Health Insurance Law
1989	Revision of the pension system
1991	Revision of Health and Medical Service Law for Elderly
1994	Revision of the pension system
1997	Revision of Child Welfare Law and Health Insurance Law Enact Long-Term Care Insurance Law
2000	Reform for Long-Term Care Insurance Long-term care operated by municipal government People aged 40 and older pay premium to Long-Term Care Insurance. 90% of nursing care cost is covered by insurance.
2001	Revision of employment insurance policy
2003	Revision of employment insurance policy Health Insurance Reform to be implemented in 2008 New plan for senior of 75 and older to bear more costs Shift management of health care plans for self-employed and senior to local government.

Source: 1. MHLW. www.mhlw.go.jp/english/wp/wp-hw/vol1/p1c1s1.html.
2. Foreign Press Center Japan. www.fpcj.jp/e/mres/publication/jp/society/social_main.html.

For social security (pension and health care) administrative purpose, residents of Japan aged 20 and 60 are grouped into three categories as follows.

- Category I: self-employed, students and all registered resident aged 20-60 years except categories II and III.
- Category II: Salaried employees in private sector and central and local government employees and private school teachers and employees in private schools.
- Category III: dependents spouse of category II (aged 20-60).

Japan also has a separate occupation based social insurance system for seaman as they do not fall into the three categories. The system is targeted only to captain and crew member on board a certain ship specified by law and their dependents. Its coverage is comprehensive including work and non-work related sickness and injury, long-term care, disability allowance, death and survivor's benefits and unemployment benefit. Contribution for seaman's insurance is shared equally between ship owner or employer and employee. However, the details of seaman's insurance are not the scope of this report.

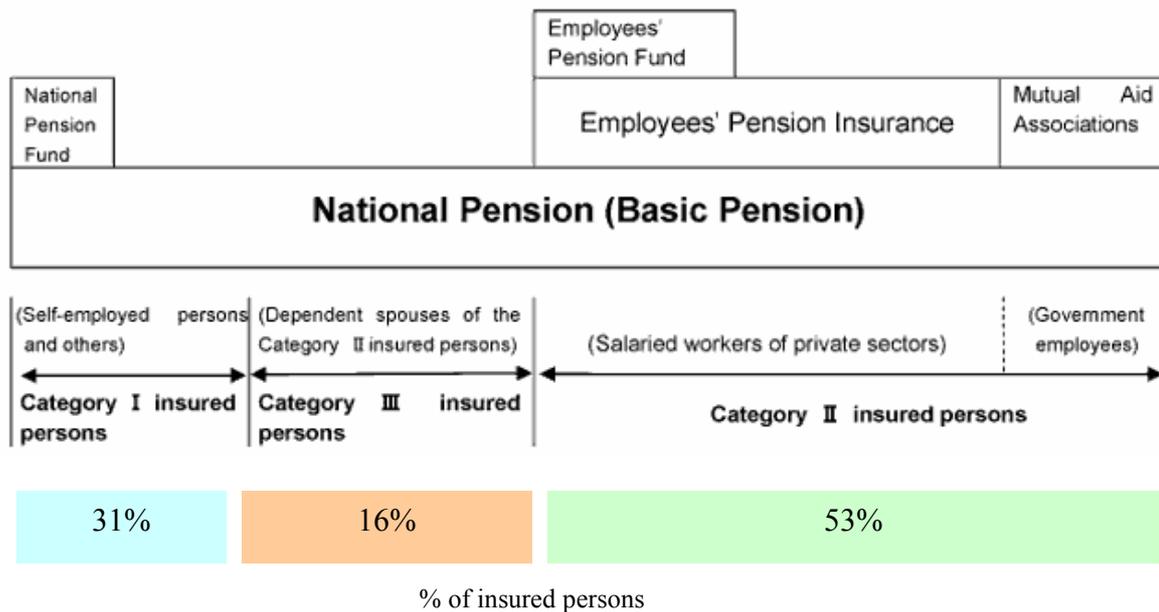
Pension

The public pension system in Japan can be characterized as a universal and defined benefit system. Pension is composed of **basic pension** (or National Pension) and **income-related pension**.

National Pension (Kokumin Nenkin) is operated by municipalities and called regional based pension (Figure 10). Everybody is entitled to basic pension required that they have paid premium for a certain period.

Income-related pension is mandatory for employees in company with five or more employees, public employees, and teachers and employees in private schools. Basic pension and income-related pension for private employees are jointly operated (together called Employees' Pension Insurance) and a single contribution rate is paid by employee and employer. The Employees' Pension Insurance covers employees and spouse (categories II and III). The jointed basic pension and income-related pension for public employees and teachers and employees in private schools are operated by the National Government Employees' Mutual Aid Association, Local Government Employees' Mutual Aid Association and Private School Teachers and Employees' Mutual Aid Association. Pension schemes for private employees, public employees and private school teachers are basically unified.

Figure 10 Structure of Universal Pension



Source: SIA. www.sia.go.jp/e/np.html.

Employees' Pension Fund and others Tax Qualified Pensions can be considered as another pillar of pension on top of basic pension and income-related pension. The funds are only for private employees and run by private firms. The National Pension Fund is

additional optional pension for category I which is run by local government and occupational funds.

Tables 2 and 3 summarized eligibility, contribution rate, and benefit rates of the National Pension and Employees' Pension Insurance.

Table 2 Summary of Basic Pension in 2007

	Basic Pension
Scheme	Pay-As-You-Go Flat rate benefit
Qualifying period	25 years
Eligible age	65 years old
Voluntary coverage	Allowed for those with specific qualifications
Contribution	13,860 Yen per month
Benefit by type (Yen per year)	
Old-age	For 40 years of contribution: 792,100 Yen. For those with exempted periods: 792,100 x (full qualifying months + exempted months) / (40x12). <u>Factors for exempted months:</u> <ul style="list-style-type: none"> • 1/3 for full contribution-exempted months. • 1/2 for three quarter contribution-exempted months. • 2/3 for half contribution-exempted months. • 5/6 for one quarter contribution-exempted months. <u>Incentive for late retirement:</u> Pension rate changes with age of retirement <i>i.e.</i> retirement at the age of 60: pension is 70% of those aged 65, retirement at the age of 70: pension is 142% of those aged 65. Additional pension will be paid if insured persons pay additional contribution of 400 Yen per month. Additional pension is 200 x month of additional contribution.
Disability	Grade 1 disability: 990,100 Yen. Grade 2 disability: 792,100 Yen. Dependent children age below 18: 227,900 Yen for the first two children, 75,900 Yen for the rest. <u>Condition:</u> Disabled person paid contribution at least two-third of insurable period prior to disability.
Survivor	Payable to insured person's wife and dependent children age below 18. Wife: 792,100 Yen. First two children: 227,900 Yen. The rest of children: 75,900 Yen. <u>Condition:</u> two months before the death, insured person had contributed two-third of insurable period.
Widow	Benefit = husband's unpaid old-age basic pension x 3/4 <u>Condition:</u> dependent wife aged 60-65 years, the deceased husband paid contribution as category I for at least 25 years, husband did not receive pension, and the beneficiary had

	Basic Pension
	been married to the deceased insured persons for at least 10 years.
Death	Lump sum payment: 120,000 – 320,000 Yen. <u>Condition:</u> insured person died before receiving pension, contribution period plus half of exempted period is greater than 36 month.
Withdrawal payment	Between 39,900 – 249,480 Yen if last contribution is before March 2007. Chart rate x (last monthly payment / 13,580) if last contribution is after March 2007. <u>Condition:</u> Non-Japanese who leaves Japan and paid contribution for at least 6 months of covered period
Exemption of contribution	Those receive disability basic pension or public assistance. Income in previous year is low. <ul style="list-style-type: none"> • Full exemption • $\frac{3}{4}$ exemption (pay 3,470 Yen) • Half exemption (pay 6,930 Yen) • $\frac{1}{4}$ exemption (pay 10,400 Yen) Postpone payment is allowed for students and low income workers (age < 30).

Source: SIA. www.sia.go.jp/e/np.html.

One-third of basic pension benefit and national pension's administrative cost are financed by general budget of the government. In 2009, the government will increase the proportion of its contribution to one half. The government also supports administrative costs of the income-related pensions.

Average monthly pensions for retirees under National Pension, Employee's Pension Insurance and Mutual Aid Pension are 50,984 Yen (2000), 176,953 Yen (2000) and 223,000 Yen (1997).⁹ The replacement rate for Employees' Pension Insurance was 55.5 percent in 2000.

Last but not least, an important issue of the Nation Pension is its coverage. Because of aging population, an increasing number of working age population becomes distrust the public pension system. In 2002, it is shown that the number of delinquent contributor rose to 8.3 million. The system could include only 62.8 percent of eligible population in the program. In other words, the delinquency ratio was 37.2 percent. Approximately 12 million insured persons were effectively opted out of the program (FPCJ).

⁹ IPSS. www.ipss.go.jp/s-info/e/Jasos2002/Jasos2002.pdf.

Table 3 Summary of Employees' Pension Insurance in 2007

	Income-Related Pension
Scheme	Defined benefit
Compulsory	Employees (aged < 70) in firm with 5 or more workers or HOJIN corporation.
Voluntary	Employees reach the age of 70 but do not meet minimum qualifying period. Voluntary type 4: those who were born before April 1, 1941 and reach 10 years under the coverage by April 1986.
Eligibility age	60 years old and receive basic pension. More than one year of contribution payment.
Retirement age	60 years old. The reform in 1994 raises retirement age to 65: by 2025 for male employee and by 2030 for female employee.
Contribution per 1,000 Yen of earnings ^a (As of September 2005)	General insured person: 142.88. Miner and mariner: 154.56 Type 4: 142.88 The rate covers the premium for insured person's spouse with no or low income. It is shared equally between employer and employee. Exempt during childcare leave. The rates are raised 0.354% every September.
Benefit by type (Yen per year)	
Old-age	<u>Age 60-64:</u> Benefit = [(fixed amount + earning related) x index rate ^b] + dependent amount. Fixed amount = (3,143 ~ 1,676 Yen) ^c x number of covered months. Earning related ^d = A + B (see note) Dependent amount = 228,600 for spouse (age < 65) + 228,600 for first two children (age < 18) + 76,200 for subsequent children. <u>Condition:</u> If retiree works and monthly income (pension + earning) > 280,000 Yen, employee's pension will be reduced or suspended. If retirees receive unemployment cash benefits, employee's pension will be suspended. <u>Age 65 and over:</u> Benefit = basic pension + A + B + dependent amount + transitional additional benefit Transitional additional benefit = fixed amount portion (for age 60-64) – basic pension <u>Condition:</u> If retirees work and monthly pension plus earning > 480,000 Yen, employee's pension will be reduced or suspended.

	Income-Related Pension
Disability (those with minor disability receive only disability allowance)	Grade 1: Benefit = $[(C + D)^e \times \text{index rate} \times 1.25] +$ dependent spouse portion + basic pension (disability) Grade 2: Benefit = $[(C + D) \times \text{index rate}] +$ dependent spouse portion + basic pension (disability) Grade 3: Benefit = $(C + D) \times \text{index rate}$ (guarantee = 596,000 Yen) Disability allowance = $(C + D) \times 2$ (guarantee = 1,191,800 Yen).
Survivor	Wife with children: benefit = $[(C + D) \times \frac{3}{4} \times \text{index rate}] +$ basic pension (survivors') Wife (or other family member) without children: benefit = $(C + D) \times \frac{3}{4} \times \text{index rate}$
Withdrawal payment	Coverage in March 2005 and before: Benefit = average standard remuneration x benefit factor (between 0.4 and 2.4). Coverage after April 2005: Benefit = average standard remuneration x $\frac{1}{2}$ of contribution rate x benefit factor (between 6 and 36). Average standard remuneration: Before March 2003 = (remuneration before March 2003 + remuneration and bonus after March 2003) / total covered months. After March 2003 = (remuneration + bonus) / total covered months. <u>Condition</u> : For non-Japanese who are leaving Japan, and have paid contribution for at least six months.

Source: SIA. www.sia.go.jp/e/np.html.

Note: ^a Earnings = standard remuneration + bonus

^b Using Consumer Price Index.

^c Depend on date of birth.

^d A = current value of average monthly remuneration before March 2003 x 9.5 ~ 7.125 / (1,000 x number of covered months before March 2003)

B = current value of average monthly remuneration plus bonus after April 2003 x 7.308 ~ 5.481 / (1,000 x number of covered months after April 2003)

^e C = average monthly standard remuneration x 7.125 / (1,000 x number of cover months before March 2003)

B = average monthly standard remuneration x 5.481 / (1,000 x number of cover months after April 2003)

Health Insurance

The first Health Insurance Law of Japan was enacted in 1927. The law covered on employees. Even though the coverage of the health insurance was extended in 1938, a large proportion of population had no health insurance. A new law in 1958, enforced in 1961, was the beginning of a universal health care coverage in Japan.

The universal health care system can be groups into occupation-based and regional-based health insurance (Table 4). For occupation-based health insurance, employer and employee in medium and large firms form health insurance societies, called

society-managed health insurance. This scheme covers 25 percent of population. For the small firms, government provides government-managed health insurance. This scheme covers 29 percent of population. The Mutual Fund Associations takes care of health insurance of 8 percent of the population. The largest group of population (38%) is under the National Health Insurance which provides by municipalities. All Japanese residents get the same type and quality of health care services under the universal system no matter what schemes they are under.

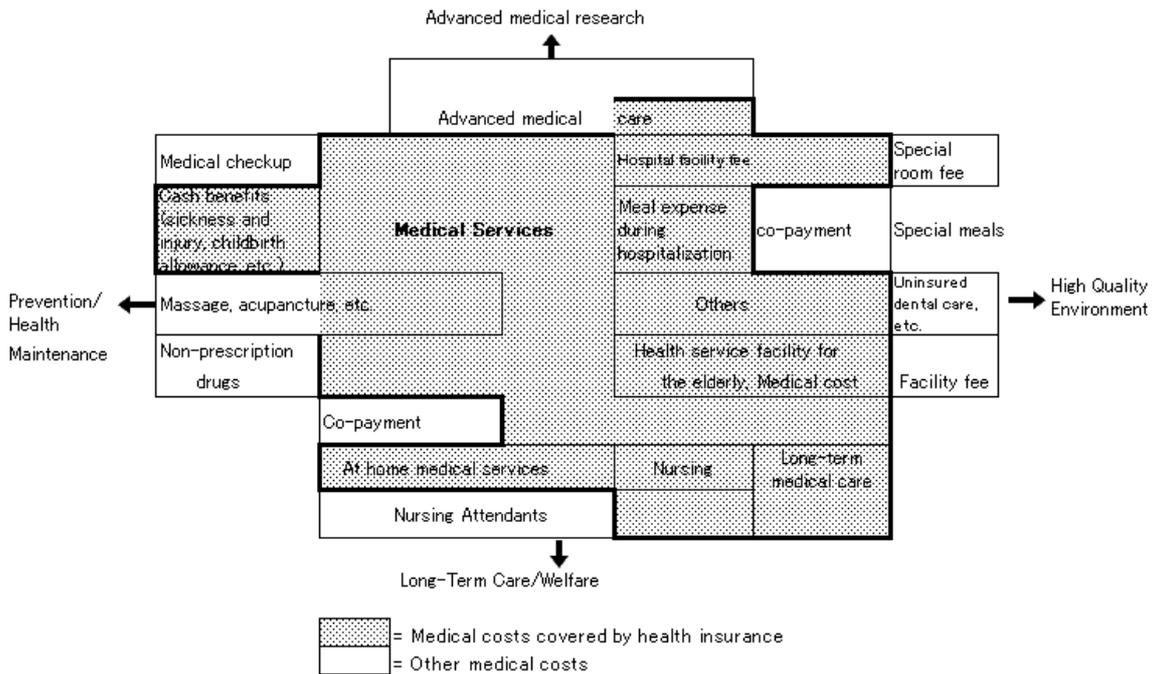
Table 4 Coverage of Universal Health Insurance

Type	Scheme	Population
Employees' Health Insurance (Occupation-based)	Government-Managed Health Insurance (small firms)	29.1%
	Society-Managed Health Insurance (large firms)	25.1%
	Day-Labour Health Insurance	0.2%
	Seamen Insurance	
	National Government Employees' Mutual Aid Association	7.9%
	Local Government Employees' Mutual Aid Association	
	Private School Teachers and Employees' Mutual Aid Association	
Region-based health Insurance	National Health Insurance	37.7%

Source: IPSS. www.ipss.go.jp/s-info/e/jasos2002/Jasos2002.pdf.

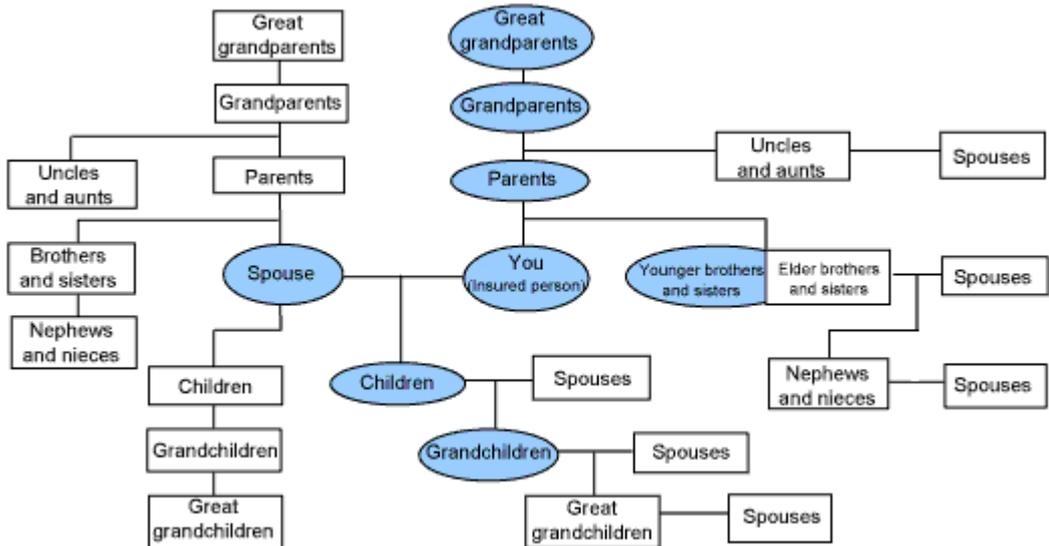
Figure 11 shows the medical services covered by all health insurance schemes. Each household has to pay premium. Patients are free to choose either public, private hospitals or clinics. The fee-for-service charges from hospitals are standardized by Medical Fee Tables and NHI drug price list. Patients co-pay for medical services. The Premium for the National Health Insurance differs across municipalities. The premium is based on income, property, and number of household members. There is a discount premium for low-income household.

Figure 11 Medical Services Covered by Health Insurance



Source: IPSS. www.ipss.go.jp/s-info/e/jasos2002/Jasos2002.pdf

Table 12 Coverage of Employees' Health Insurance



Source: SIA. www.sia.go.jp/e/ehi.html.

Note: Dependents with financial support from an insured person (blue shading) are covered if their annual income is below 1.3 million Yen (1.8 million Yen for elderly or disabled) or half of insured person's income.

Employees' Health Insurance covers employees and their dependents family member (Figure 12). Employees pay health care premium based on their earnings (standard remuneration and bonuses¹⁰). The premium is shared equally between employee and employer. The premium for government-managed health insurance in 2005 was 8.2 percent of earnings for employees aged below 40 and 9.43 percent of earnings for employees aged 40 and above (including long-term insurance care). The benefit and co-payment mechanisms are shown in the following table. The payment mechanism between patients, insurers, and providers is shown in Figure 13.

Table 5 Employees' Health Insurance Benefits

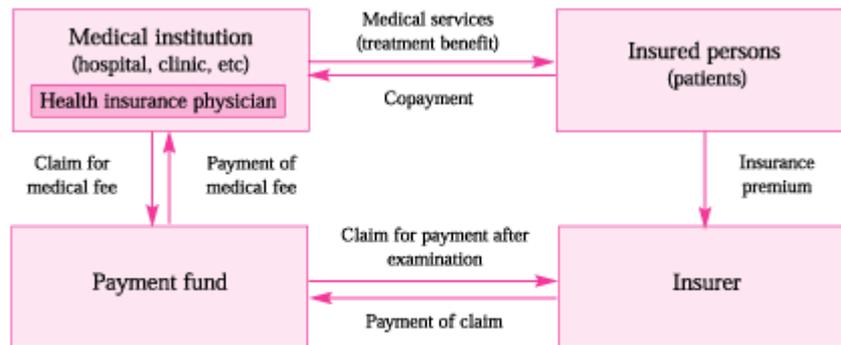
Type of Benefit	Benefit / Co-payment
Medical care (non-work related sickness)*:	Cost sharing: (% of medical care treatment) 20% for people aged < 3 and high income elderly), 30% for people aged 3-69, and 10% for people aged > 69.
Meal service*	Cost sharing: 260 Yen per meal.
Medical care expenses*	Expense at non-insurance hospital. Transportation expense if patients cannot walk due to sickness or injury.
High-cost medical care*	Medical expenses exceed co-payment limits at an insurance hospital/clinic in the same month <i>e.g.</i> 35,400 Yen are reimbursable for individuals with low income.
Sickness and injury allowance (unable to work and lose salary)	60% of daily standard remuneration for up to 18 months with some exceptions.
Maternity allowance (give birth and lose income from work)	60% of daily standard remuneration, 42 days before and 56 days after child delivery.
Midwifery expense*	350,000 yen
Insured person's funeral expense	One monthly standard remuneration (minimum 50,000 Yen) and actual cost of funeral up to standard remuneration.
Dependent's funeral expense	50,000 Yen

Source: SIA. www.sia.go.jp/e/ehi.html.

Note: * Dependents are eligible for the benefits.

¹⁰ With the ceiling of 2 million Yen per one bonus payment.

Figure 13 Payment Mechanism of Health Insurance



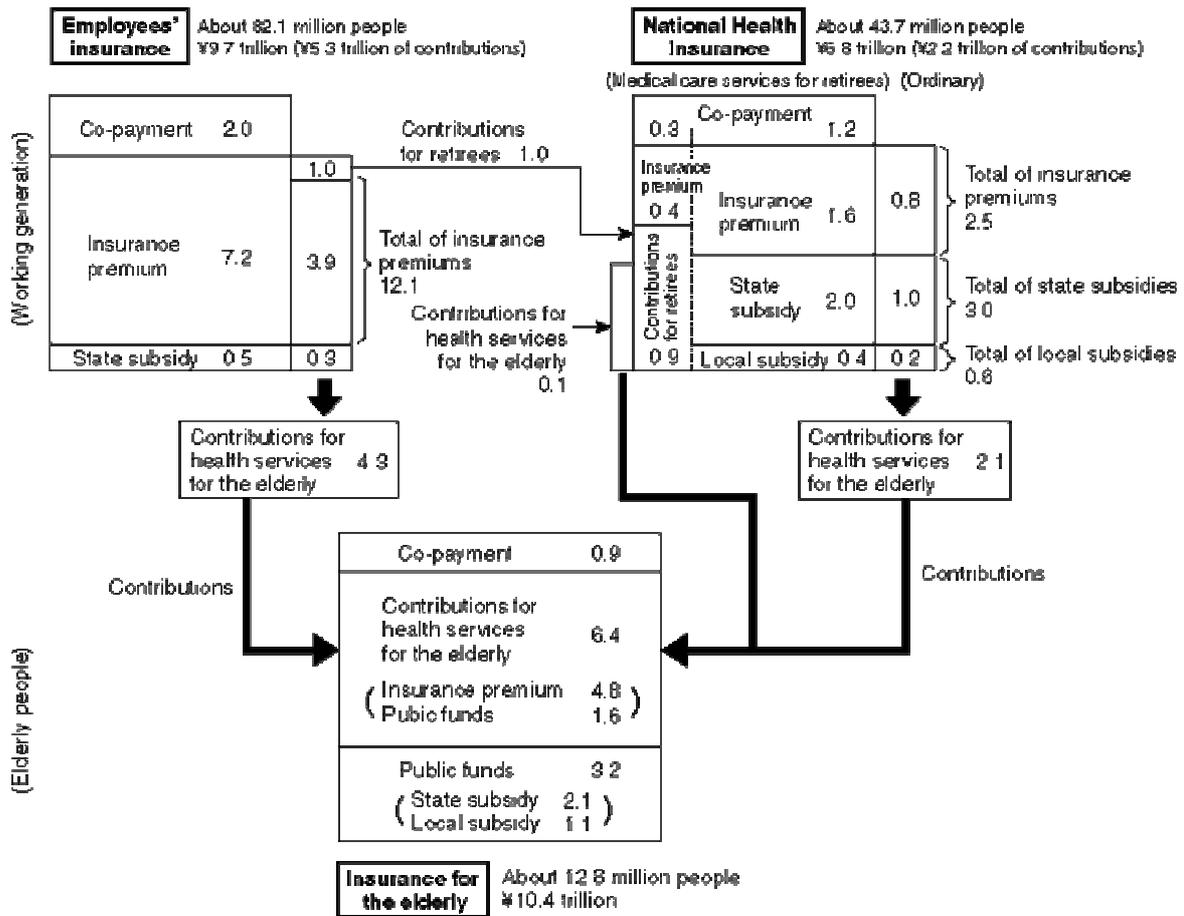
Source: Japan Pharmaceutical Manufacturers Association.
www.jpma.or.jp/12english/guide_industry/healthcare/healthcare.html.

Health insurance system in Japan used to provide special program for those aged 70 and above and those aged between 65 and 70 years who are bed-ridden or have severe disabilities. The system for elderly also includes retirees who used to be under the Employees' Health Insurance. In Figure 14, it shows that the cost of insurance for elderly that covers 12.8 million populations is higher than the cost of Employees' Health Insurance that covers 82 million populations. Elderly patients were normally hospitalized for long periods which made the share of health care cost for elderly high. Together with aging population, such costs have been increasing. It was 35 percent of total medical cost in 2000. To reduce the burden of high health care cost of elderly on government, the Long-Term Care Insurance was introduced in 2000. The new system emphasizes on in-home care for elderly and separates long-term care from medical insurance.

Long-Term Care Insurance covers elderly aged 65 and over and Japanese residents aged between 40 and 65 who are under the Category II of the pension system. Premium rate is determined by each municipality. Elderly pay premium through municipalities. It can be deducted from pension pay check. Employees pay premium together with their Employee's Health Insurance.

The mandatory Long-Term Care Insurance system for elderly is financed by premium, government budget, and co-payment of users. Premium and subsidy from government budget is shared equally to the cost of the insurance (Figure 15). The rest of insurance expenditure is financed by co-payment. In 2000-2002, premium for insured person Category I was about 2,900 Yen per month and for Category II was 0.95 (for Government-managed Health Insurance) and 0.88 (for Society-managed Health Insurance) percent of earnings. Co-payment is 10 percent of service charges. The ceilings of co-payment per month range between 15,000 and 37,200 Yen depending on household income status.

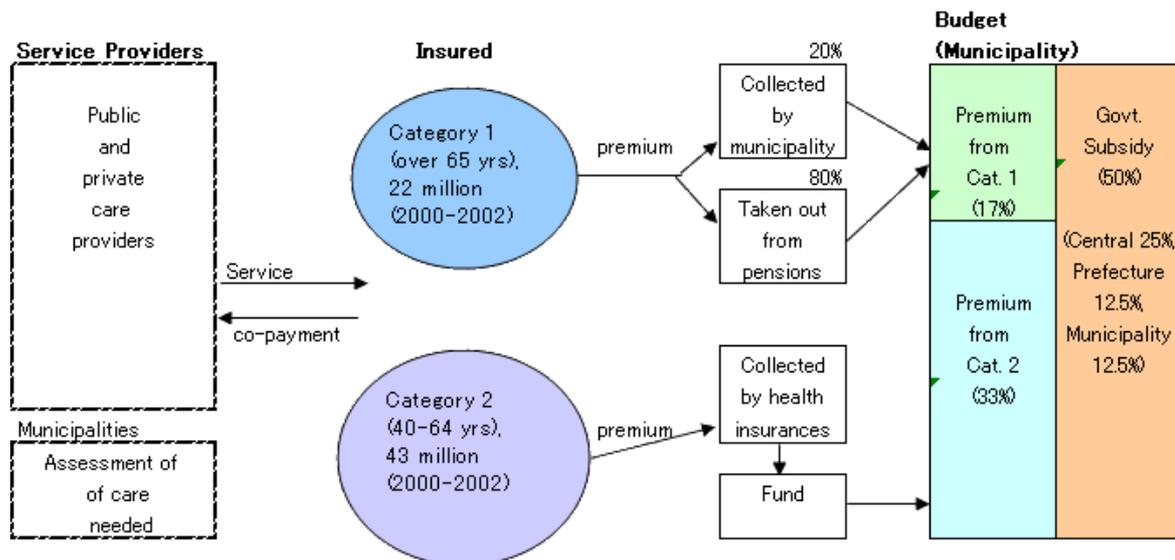
Figure 14 The Structure of Financial Resources in 2000



Note: The values used in this figure are based on FY1998 budget (unit ¥ trillion). The values used for the members of individual systems are as of the end of March 1997. The eligible people for the insurance system for the elderly are the insured of age 70+ in various medical insurance systems.

Source: MHLW. www.mhlw.go.jp/english/wp/wp-hw/vol1/p1c3s1.html.

Figure 15 Long-Term Care Insurance

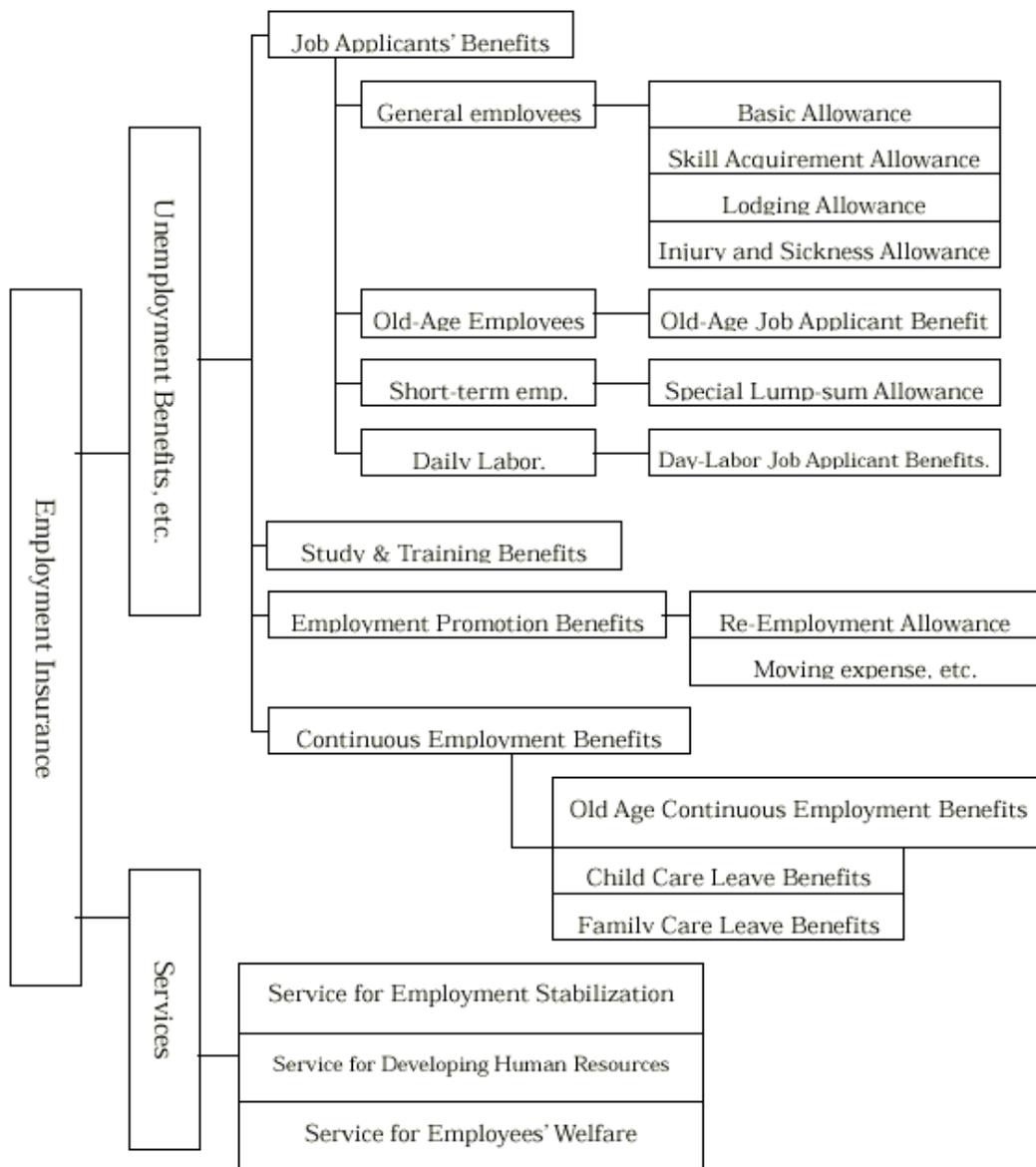


Source: IPSS. www.ipss.go.jp/s-info/e/jasos2002/Jasos2002.pdf.

Employment Insurance (EI)

Japan provides social security against unemployment through the Employment Insurance Law which has been enacted since 1974. The employment insurance system was revised many times due to changing employment patterns. One should know that employment pattern in Japan was generally life-time employment. It has been changed around 1990s. Young and female workers are likely to engage in part-time or temporary employment.¹¹ The revision of eligibility requirement allows those part-time and temporary workers to receive EI benefits, however, with some conditions. The current EI system provides cash and in-kind benefit (Figure 16) to insured workers.

Figure 16 Types of Employment Insurance Benefit



Source: IPSS. www.ipss.go.jp/s-info/e/Jasos2002/Jasos2002.pdf

¹¹ In 2005, about 41 percent of female employees work part-time.

To be eligible for cash basic allowance, insured workers must have been employed for 6 months in the last 12 months. Part-time or temporary workers should work at least 20 hours per week and they must be at the same workplace for at least one year. They are eligible if their annual income does not exceed 900,000 Yen. The benefit is not taxable and it can be complement with mean-tested social assistance benefit.

The EI benefit is determined by daily amount of wage (DAW), benefit ratio (BR) and benefit duration (days). The formulas for DAW and BR in 2001 are as follow:¹²

$$\text{DAW} = [(\text{annual gross earnings}) / 2] \times 80\% / 180 \text{ days}$$

For those age ≤ 60 :

$$\text{BR} = 0.8 \quad \text{if } 2,160 \leq \text{DAW} < 4,250$$

$$\text{BR} = 0.8 + [(0.2 * (4,250 - \text{DAW})) / (10,280 - 4,250)] \quad \text{if } 4,250 \leq \text{DAW} < 10,280$$

$$\text{BR} = 0.6 \quad \text{if } 10,280 \leq \text{DAW} < \text{max.}$$

The minimum DAW is 2,160 and the maximum DAW is 14,590 Yen for those aged below 29, 16,210 Yen for those aged between 30 and 44, and 17,840 Yen for those aged between 45 and 59.

For those $60 < \text{age} \leq 65$:

$$\text{BR} = 0.8 \quad \text{if } 2,160 \leq \text{DAW} < 4,250$$

$$\text{BR} = 0.8 + [(0.3 * (4,250 - \text{DAW})) / (13,300 - 4,250)] \quad \text{if } 4,250 \leq \text{DAW} < 13,300$$

$$\text{BR} = 0.6 \quad \text{if } 13,300 \leq \text{DAW} < 19,450.$$

The minimum DAW and maximum DAW are 2,160 Yen and 19,450 Yen. The benefit is paid weekly. The maximum annual benefit in 2001 was 3,853,440 Yen.

The duration benefit depends on age of unemployed worker, years of insured, and reasons of job separation (Table 6). Those who have difficulty finding a new job will receive benefits up to one year depending on their age. The maximum duration of benefit for those voluntarily quit their job is 150 days. A lump sum amount will be paid to an EI recipient if he/she is re-employed before the benefit is exhausted. However, the remaining benefit duration should be at least one-third of eligible duration and more than 45-day period.

The contribution rate to the employment insurance program depends on industry of an insured worker (Table 7). The rate varies from 1.95 to 2.25 of gross earnings including bonus. The rates will be reduced by 0.45 percentage points in 2007. Employers share more of the contribution payment.

The unemployment rate in Japan kept increasing during 1990s. At the beginning of 1990s, the unemployment rate was as low as 2 percent. It increased to almost 5 percent. As a result, the number of EI recipients increased more than a hundred percent (Figure 17) which created heavy burden to the EI fund. The reform of the program in 2001 and 2003 reduced the benefit rate and duration, but loosened eligibility requirement for part-time and temporary workers. The number of EI recipients has declined. Of all unemployed

¹² www.oecd.org/dataoecd/23/16/34007106.pdf. A more up-to-date benefit calculation can be viewed at www.mhlw.go.jp/houdou/2003/04/h0425-3a.html (Japanese).

workers in 2004 (3.13 million), only 22 percent received EI benefit. In other words, only 58 percent of those involuntary unemployed in 2004 received the benefit.

Table 6 The Duration of Benefit (days)

Years of contribution	Unemployment due to bankruptcy, dismissal etc.				
	Under 30	30-44	35-44	45-59	60-64
Less than 1 Year	90	90	90	90	90
1-4 Years	90	90	90	180	150
5-9 Years	120	180	180	240	180
10-19 Years	180	210	240	270	210
20+ Years	-	240	270	330	240
Years of contribution	All other unemployed		Unemployed who have difficulty finding a job		
	All ages		Age < 45	45 ≤ Age < 64	
Less than 1 Year	90		150	150	
1-4 Years	90		300	360	
5-9 Years	90		300	360	
10-19 Years	120		300	360	
20+ Years	150		300	360	

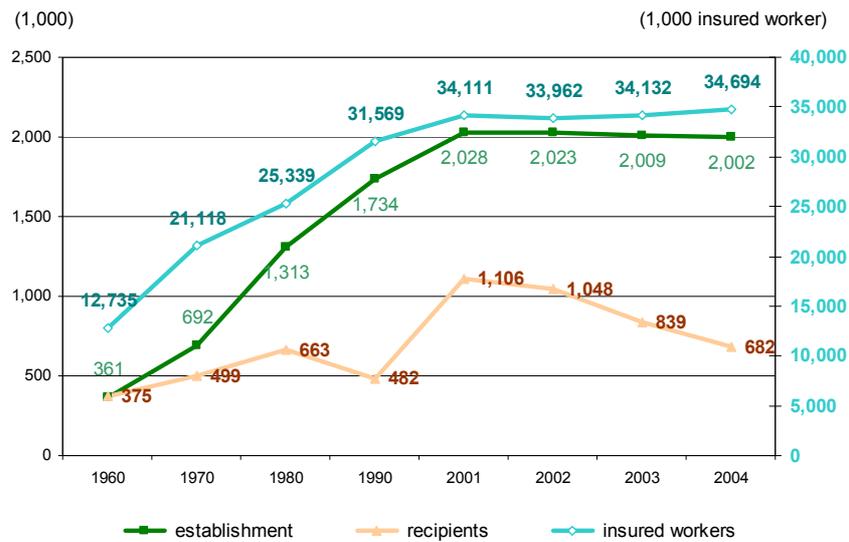
Source: JIL (2006).

Table 7 Contribution rate in 2005 (% of earnings)

	General Services	Agriculture, forestry & fisheries, Sake Brewing Industry	Construction
Insured person	0.8	0.9	0.9
Employer	1.15	1.25	1.35
Total	1.95	2.15	2.25

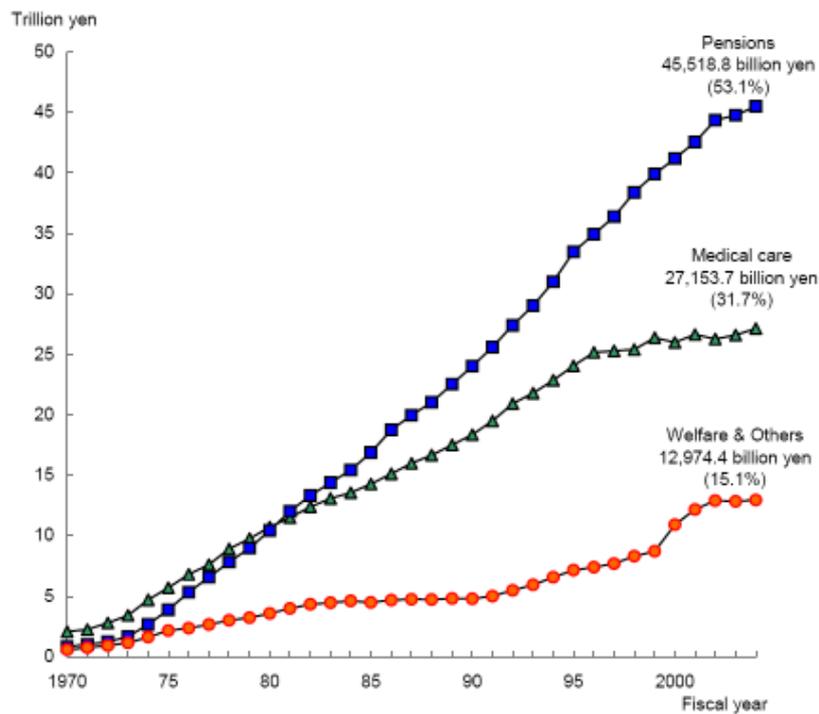
Source: JIL (2006).

Figure 17 Number of Insured Workers and Recipients



Source: JIL (2006)

Figure 18 Social Security Expenditure, 1970-2004



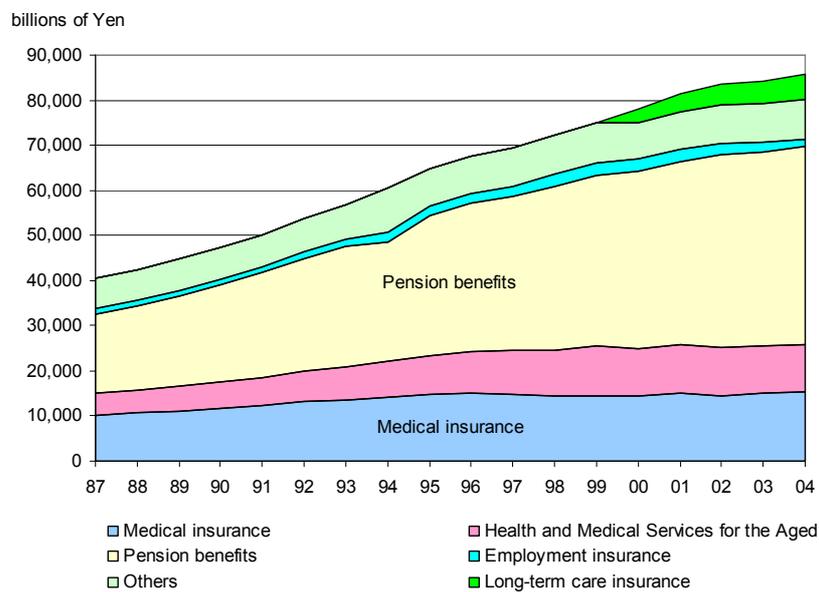
Source: IPSS (2007)

Social security expenditure in 2004 is 85.6 trillion Yen. Average social security expenditure per head is 671 thousand Yen. About 53 percent is for pension and 32 percent

was medical care expense (Figure 18). Expenditure on social security for elderly is about 70 percent of total expenditure.

The growth of pension expenditure was very high during the period of 1972-77. Its average growth was 37 percent. The highest pension expenditure growth rate was 60 percent in 1974 when the government revised pension plan and started using indexation of the benefit. Currently, social security expenditures for elderly, sickness and health, and for unemployment are about 12, 7 and 0.4 percent of National Income. The shares of social security expenditures on pension and Long-Term Care Insurance have been increasing (Figure 19). There expenditures are expected to expand more rapidly due to aging population. It is projected by MHWL that expenditure on pension and Long-Term Care will be 12.5 and 2 percent of National Income in 2011.¹³

Figure 19 Social Security Expenditure

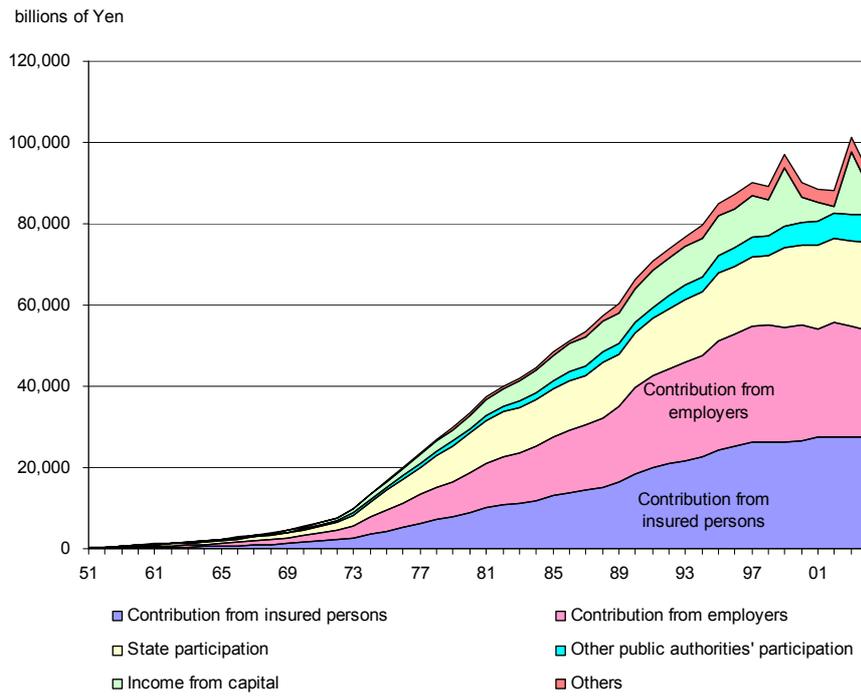


Source: IPSS (2007)

In 1961, social security revenue was 1.2 trillions of Yen. About 26 and 30 percent of revenues were contribution from employee and employer. Central and local government subsidies were 35 percent of revenues. The revenues increase to 93 trillions of Yen in 2004 (Figure 20). The contribution payments from employee, employer and government are 30, 28 and 31 percent. Income from capital was about 2 to 15 percent of total revenues. During the period of 2000-02, average income from capital reduced by 50 percent annually.

¹³ IPSS. Table 18-1. www.ipss.go.jp/ss-cost/e/cost04/data/h12-19e.xls.

Figure 20 Source of Social Security Revenues



Source: IPSS (2007)

IV. What Can Thailand Learn from the Japanese Systems?

Each society has its own uniqueness. Social security systems in one country may not be the best option for other countries. Among others, the following issues are what Thailand should learn from Japan’s social security systems to appropriately adapt to suit the Thai systems and society.

- State and Political Priority

The Constitution of Japan emphasizes the right of all people to maintain the minimum standards of living and the state to provide social security. It can be said that the Constitution of Japan is very advance in the Eastern world, particularly on the right of people on social security. Albeit the U.S. helped Japan draft their Constitution, Japan’s Constitution is more liberal than the U.S. Constitution in guaranteeing of social welfare and public health.

However, what is more important is public priority to social security. All kinds of security are important to people who were living in a long period of war and facing an aftermath of utter devastation. The politicians knew how to pick public sentiment and gain popularity. Social security policies were the priority of political parties. Particularly they were the priority of Mr. Yoshida and the Liberal Democratic Party (LDP). When Mr. Yoshida took a seat of the PM, the average annual growth of social security expenditure was almost 33 percent (Table 8). The highest in the Japanese history was 49 percent in 1954, one year before a merge of Liberal and Democratic Parties to become LDP. It might be the political motivation that explains why Japan launched universal health insurance and public pension in the same year in 1961.¹⁴

Table 8 Periods of High Social Security Expenditure Growth

Prime Minister	Term *	Average of annual growth of social security expenditure (%)
Yoshida Shigeru (Liberal)	1948-54	32.70**
Hatoyama Ichirō (Demoratic, LDP)	1955-56	1.90
Ishibashi Tanzan (LDP)	1957	9.30
Kishi Nobusuke (LDP)	1957-60	13.25
Ikeda Hayato (LDP)	1960-64	18.50
Sato Eisaku (LDP)	1965-72	17.80
Tanaka Kakuei (LDP)	1972-74	31.20
Miki Takeo (LDP)	1975-76	26.85
Fukuda Takeo (LDP)	1977-78	16.70
Ohira Masayoshi (LDP)	1979-80	11.95
Suzuki Zenko (LDP)	1980-82	11.07

Note: * Years are adjusted when the PMs took the position at the beginning or at the end of the year.

** Growth during the period 1951-54.

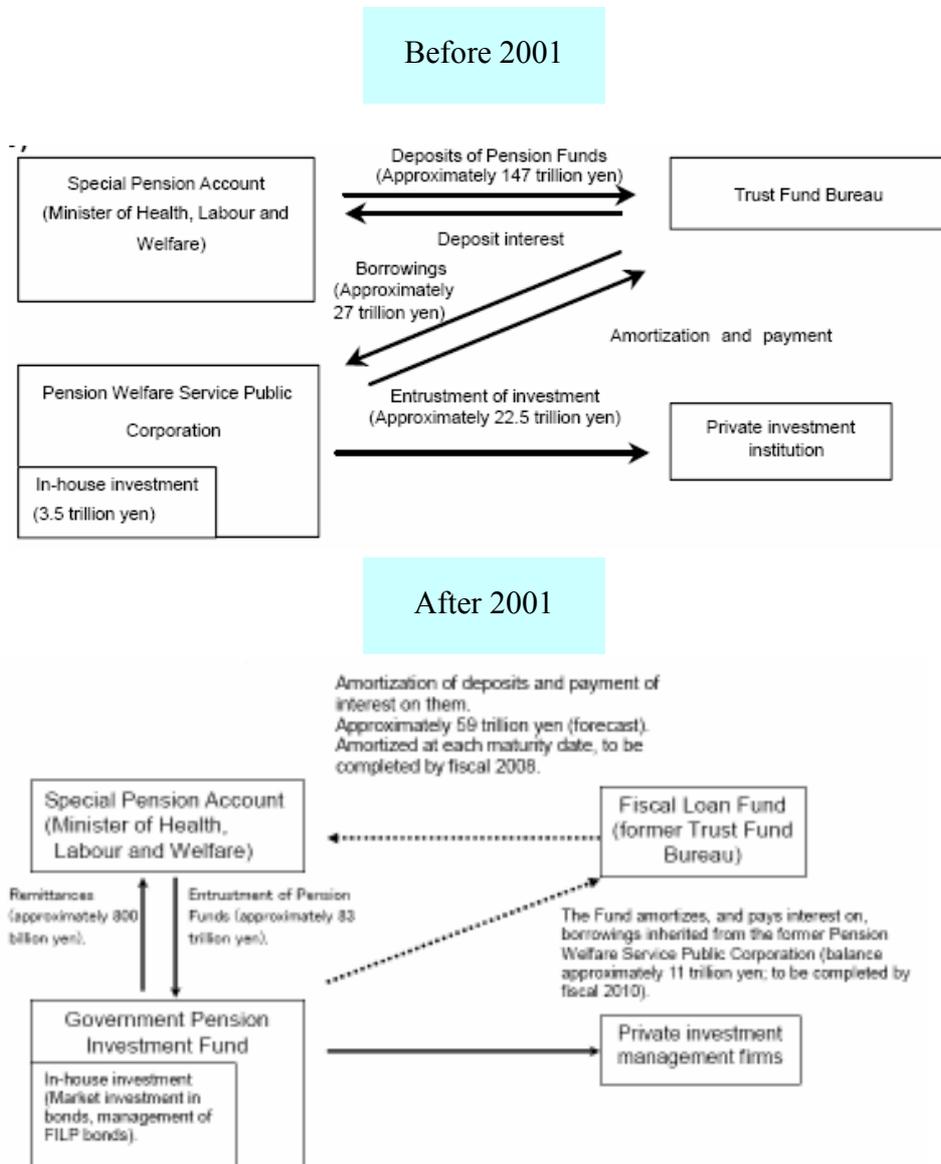
¹⁴ Other policies that make LDP popular are crop subsidies for farmers, and improvement of working conditions and wages for workers.

- Independent Pension Fund

Japan's Government Pension Investment Fund (GPIF) manages pension funds for Employees' Pension and National Pension. The GPIF is now the largest public pension fund in the world. It has an asset of approximately 72 trillion Yen. About 48 and 10 percent of asset are domestic and foreign bonds.

The GPIF was established in 2001. Its role was to manage and invest the reserve funds directly entrusted by the MHLW. The management mechanism was reformed on April 1, 2006. The new GPIF becomes an independent administrative institution. Before an establishment of the GPIF, pension fund was deposited at Trust Fund Bureau (Figure 21). Fund was lent for housing and invested in low-return investment such as health resorts. A large proportion of fund was lent to Fiscal Investment and Loan Program (FILP) for public works.

Figure 21 Pension Fund Investment Mechanism



Source: GPIF

The new governance structure of the GPIF is expected to improve transparency and long-term performance of the fund. The investment committee has to follow Mid-term Plan drawn by the president. In-house investment is mainly invested in domestic bonds. GPIF entrusts stock investments to external asset management. The performance of GPIF is evaluated by an Evaluation Committee appointed by Welfare Minister (MHLW).

- Aging Population

Currently, About 7 percent of Thai population are old (65 years old and older). Thailand's Total Fertility Ratio (TFR) is about 1.7 which is about the ratio of Japan in 1980. In 2020, the proportion of population aged 65 and over will be 11 percent of total population which is about the same proportion of Japan in 1990. However, the proportion of population aged 60 and over (retirement age in Thailand) will be 17 percent and old-age dependency ratio will be 26 in the same year. Thai populations are aging.

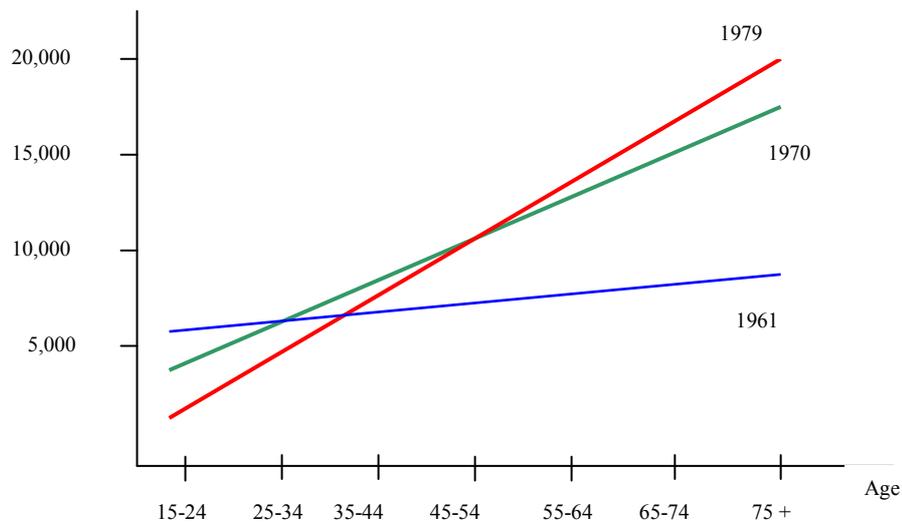
Unlike Japan, Thailand has no universal pension. Aging population does not mean a higher burden on public pension and taxpayers. However, it means a higher poverty risk on current working age groups if they do not save for their retirement. Pension system in Thailand covers only a small proportion of workers. Many of the old who do not have pension are poor. Using the Socio-Economic Survey in 2002,¹⁵ it is shown that about 12 percent of the old are poor and almost half of poor household have elderly household member. It was shown in Engelhardt and Gruber (2004) that social security benefit would significantly alter the poverty of the elderly. Thailand should start thinking about how to secure the life of elderly in a very near future.

- Universal health insurance with co-payment.

Health Insurance Systems in Japan make sure that all population can access the same quantity and quality of medical services. The systems are unified. Patients have to co-pay when they receive medical treatment. Yoshikawa (2002) stated health insurance improved quality of life of elderly and increased life expectancy. Before 1961, many elderly, who had a higher sickness rate than younger ones, refrained from seeking medical services because they could not afford them. However, a free health care may not be a good option. When health care services for elderly were free in Japan in 1970, medical treatment (Figure 22) for elderly increased significantly. In the same token, its cost was sky-rocked.

¹⁵ The survey is conducted by the National Statistical Office. The poverty incidence was calculated using the poverty line of 902 Baht per month.

Figure 22 Medical Treatment Ratio by Age



Source: Yoshikawa (2002)

- Health Insurance for Elderly and Long-Term Care Insurance

A separate funding for health insurance for elderly aged 70 and over was introduced in 1983. It helps reduce the burden of health care cost on the National Health Insurance. Without it, retirees and other elderly would have overloaded NHI fund. The cost of health insurance for elderly is shared by all other health insurance schemes. Moreover, the systems also separate long-term care from medical care insurance. The Long-Term Care Insurance helps elderly shoulder bedridden cost. Such insurance also promotes in-home care and improves the allocation of health care facilities as it intends to reduce unnecessary hospitalization.

- Tightening of Employment Insurance Benefit.

Employment pattern in Japan used to be dominated by a life-time employment which made the reciprocity rate of unemployment benefit low. Changing patterns of employment together with higher unemployment rates in 1990s, Employment Insurance fund balances were very low. As a result, the reform in 2001 tightened the benefits for those who are voluntary unemployed. As shown in Figure 17 that the number of EI recipients has reduced after the reform. They have moved into an opposite direction with the unemployment rates. However, the system supports those who find it difficult to be re-employed, e.g. old job seekers. They can get a longer financial support as they might have to spend a longer period searching for an appropriate paid job.

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