

Rapid Population Ageing and Reforms to Contractual Mandatory Retirement in Japan and South Korea

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Abstract

Rapid population ageing in Japan and South Korea requires reforms to retirement policies, especially the contractual mandatory retirement of workers at age 60. The experience of other nations suggests that Japan and South Korea can amend retirement policies without undue impacts on productivity and economic performance.

Keywords: Contractual retirement; Japan; South Korea; Policy reforms; Population ageing

Introduction

In Japan today, more than 26% of the population is aged 65 and older. The population of South Korea (henceforth Korea) is younger, but is ageing extremely rapidly so that by 2030, 24% of its population will be 65 and above. The two nations have among the longest longevity and the lowest childbirth rates in the world. Consequently, both are faced with enormous challenges in managing an unprecedented demographic transition.

The role of the large number of older workers in the labour force is a topic of public debate in both countries [1]. In both Japan and Korea, a significant portion of all workers are involuntarily retired once reaching age 60. In Japan, many are re-hired by their previous employers but often in downgraded terms of employment. In Korea, most workers 60 and above must become small scale entrepreneurs, or accept non-regular employment. In both countries, the majority of workers over 60 is in precarious types of employment characterized by low pay, few benefits, if any little job security and poor career prospects. Old age poverty is common in part because public pensions are not paid until age 65 and relatively few women are in the labour force [2].

Reforming Contractual Mandatory Retirement

Governments in Japan and Korea have sought to increase the age of contractual mandatory retirement past age 60, but face persistent and extensive resistance from large employers. Employers have a strong preference to retire workers at age 60 and hire younger workers at lower wages. Moreover, there is a widely held belief in both Japan and

Korea that restricting employment for older workers will create jobs for young people.

Many Western nations, including the USA, Great Britain and Canada as well as Australia have banned contractual mandatory retirement in the past decades. The result has not been an increase in youth unemployment, nor an adverse impact on the productivity of employers. The finding of these nations is that the length of tenure of older workers only increases marginally, with most workers deciding to retire as soon as they have sufficient income security. Given rapidly ageing populations, prolonged life expectancy, and limited options to increase the size of the labour force (such as through migration), the governments have little choice but to emulate, at least in part, the policy directions of those western nations.

Conclusion

The wholesale involuntary retirement of workers age at 60 in Japan and Korea, regardless of workplace performance, is an archaic practice not in keeping with the findings of other nations, and the needs of ageing societies. The policy directions of Japan and Korea will be studied closely by other nations in Asia, such as China, that will soon also face a rapid increase in the percentage of persons 65 and over.

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