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JAPAN'S AGING SOCIETY: POLICY, LESSON AND THE SILVER ECONOMY

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Abstract

This paper examines policies and lessons learned from Japan's aging society and the potential of the silver economy. Through documentary research, the findings indicate that Japan's population is aging more rapidly than in other countries, having transitioned into an aging society since the 1970s and subsequently into a super-aged society—the oldest in the world. This demographic shift has significant economic and social implications. In response, Japan has implemented various policies and preparations to address its aging population. These aging strategies are proactive and effective initiatives undertaken by both the public and private sectors. Public healthcare systems, including medical treatment, pension insurance, and home care services, have been established and continuously improved. The aging society has led to a reduction in the number of young workers, a decline in personal income tax revenue, and an increase in government expenditure on elderly welfare. The growing elderly population in Japan is reshaping the economy and consumption patterns. Both governmental sectors and private businesses are developing

products, innovations, and services tailored to elderly individuals, known as the silver economy. This trend is not confined to Japan; other countries can also benefit from Japan's aging society.

Keywords:

Aging Policy, The Silver Economy, Japan, Lesson

1. Introduction

Japan is experiencing a significant demographic shift toward an older population. It is currently the oldest country in the world. Recent data shows that over 29% of Japan's population is 65 or older, a trend driven by high life expectancy and low birth rates, contributing to a declining population. The number of elderly people aged 65 and over is expected to continue to increase until 2044. (Susuki, 2023) Since 2011, Japan's population has been shrinking, and projections suggest that it could drop below 120 million by 2029. This demographic shift has led to challenges for the labor force. The shrinking working-age population presents a significant obstacle to Japan's economy, raising concerns about maintaining productivity and supporting a growing number of retirees. The aging population has profound economic implications. Local economies and the social security system in Japan—specifically, pensions, long-term care, and medical care—will be impacted by these demographic shifts.

This study discusses the various policies Japan has implemented to address the challenges of an aging population. It will provide insights and lessons that other countries can learn from Japan's experience. Also, it explores economic opportunities arising from the needs and consumption patterns of the elderly population, called the silver economy.

2. Impacts on Japan Aging Society

2.1 Understanding Japan's Aging Society

Japan is among the fastest-aging countries globally. As of 2023, this demographic has grown to over 29%, and projections indicate that it will continue to rise, reaching approximately 38% by 2065 (Lubman, 2023). Japan also has one of the highest life expectancies in the world, with an average of around 84 years, which significantly contributes to its aging population. (Paschaline, Prastita, & Mega. 2023) The main cause of the aging of the Japanese population is the rapid decline in fertility. (Horlacher & MacKella. 2003) Japan's fertility rate is among the lowest in the world, hovering around 1.374 births per woman, a 0.51% increase from 2023. (macrotrends. 2024, online)

Horlacher & MacKella (2003) indicate that a cause of Japan's low birth rate is that the proportion of married women in Japan has steadily decreased as more women take advantage of increased opportunities for higher education and improved employment prospects. Also, the responsibility of caring for the elderly is a factor contributing to lower fertility rates. By 2025,

Japan is expected to have 5.2 million seniors in need of full-time care. This low birth rate, coupled with high life expectancy, exacerbates the challenges posed by an aging population.

These demographic trends have significantly impacted Japan's economy and society. In recent years, the Japanese economy has placed a strong emphasis on demographics. The aging population has led to a shrinking workforce, resulting in substantial labor shortages across various sectors, including healthcare, construction, and technology. Investment and rates of saving will decrease. (Paschaline, Prastita, & Mega. 2023) The increasing number of retirees has placed considerable strain on Japan's pension system, with the declining working-age population making it difficult to sustain current pension levels. Moreover, the demand for healthcare services is rising due to the aging population, leading to increased healthcare expenditures and placing additional pressure on the national budget. Fig. 1 illustrates Japan's increasing number of older adults and the declining number of working-age and young individuals between 2010-2060.

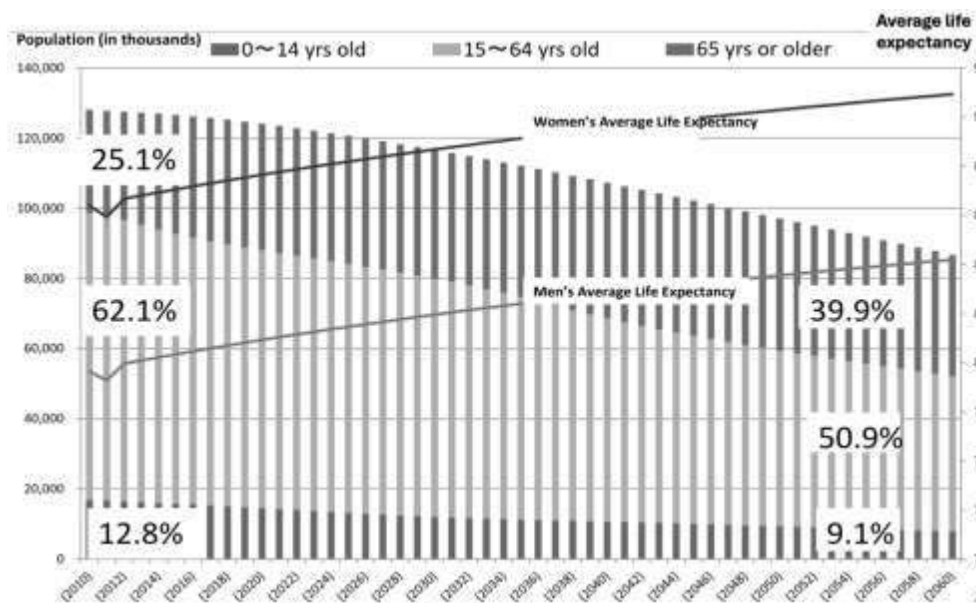


Figure 1: Demographic in Japan, 2010-2060

Source: National Institute of Population and Social Security Research (2012). *Populations for Japan: 2011-2060 (With Long-Range Population Projections: 2061-2110)*. Tokyo: National Institute of Population and Social Security Research. (Cited in Kuraoka. 2015)

Socially, the growing need for elderly care services presents significant challenges. The burden of caregiving often falls on family members, particularly women, which creates social and economic pressures. Additionally, many elderly individuals in Japan live alone, leading to social

isolation and mental health issues. The phenomenon of "kodokushi" (lonely deaths) has become a significant concern. (Oh. 2023)

Gee Hee Hong and Todd Schneider (2020) use the term "Shrinkanomics" to describe the troublesome economic development in Japan over the last couple of decades due to its shrinking population to understand the impact of demographic trends on Japan's economy, society, and politics. They state that the aging and declining population influence economic and financial outcomes, as well as the development of cities and public policy priorities. The decreasing population and increasing number of elderly people have raised concerns within the Japanese government about possible economic slowdown and difficulties in sustaining pension and healthcare systems. Business leaders are concerned about a potential decline in customers and the possibility of labor shortages, while middle-aged adults are worried about securing adequate support as they grow older. (Horlacher & MacKella. 2003)

Japan's aging society impacts inevitably on an increase in social security payments such as medical costs, long-term care costs, and pension payments. Japan has implemented various policies related to workforce participation, welfare, healthcare, pensions, immigration, and technology. Efforts are being made to increase the participation of women and older adults in the workforce. To address labor shortages, Japan has begun to relax its traditionally strict immigration policies, allowing more foreign workers to enter the country. Additionally, Japan is investing heavily in robotics and artificial intelligence (AI) to compensate for the declining workforce, particularly in sectors like elderly care.

2.2 Government Policies and Initiatives

The Japanese government has outlined strategic directions for both ongoing and future policies to address the dual challenges of population decline and aging, particularly in rural areas. The government is focusing on revitalizing regions by encouraging migration from urban centers and supporting local economies. There is also a sustained effort to ensure the sustainability of Japan's social security systems, including pensions, healthcare, and long-term care, in light of the aging population. Significantly, the decreasing number of workers has prompted Japan to seek international cooperation, including the potential relaxation of immigration policies to address labor shortages, particularly in the caregiving sector. These policies reflect Japan's proactive and evolving approach to managing the challenges posed by an aging society. The government aims

to balance the needs for care, financial sustainability, and the promotion of active and healthy aging.

The Japanese government has implemented various policies and initiatives from the 1970s to the present to address these challenges, as seen in Table 1.

Table 1: Japanese Government Policies and Initiatives, 1970s-2021

1970s Early Recognition and Initial Measures
▪ 1973: The Elderly Welfare Law was enacted, marking one of the first comprehensive efforts to address the needs of the aging population. It focused on expanding welfare services for the elderly, including in-home care services and the construction of nursing homes. ▪ 1973: The introduction of Free Medical Care for the Elderly reflected the growing concern over healthcare costs for the aging population. This policy was later revised due to its unsustainable financial burden.
1980s Shift Towards Comprehensive Welfare and Health Services
▪ 1982: The government introduced the Gold Plan (Ten-Year Strategy to Promote Health and Welfare for the Elderly), which aimed to expand community-based services, such as home help, day services, and short-stay services, while also increasing the number of nursing homes. ▪ 1986: The Health and Medical Services Law for the Aged was established to improve the health services available to the elderly, particularly focusing on preventive care and rehabilitation services.
1990s Expansion and Reform of Welfare Services
▪ 1990: The New Gold Plan was introduced, expanding upon the original Gold Plan with more ambitious targets, including the development of more long-term care facilities and the enhancement of in-home care services. ▪ 1994: The Angel Plan (Basic Direction for Child Rearing Assistance Measures) was introduced to address declining birth rates, indirectly related to aging as it sought to balance population demographics.
2000s Introduction of Long-Term Care Insurance and Pension Reforms
▪ 2000: The Long-Term Care Insurance (LTCI) System was a landmark policy introduced to address the growing need for elderly care services. LTCI provided a new insurance-based system funded by premiums and taxes, offering a wide range of services, from in-home care to institutional care. It shifted the burden of elderly care from families to a more systematic and collective approach.

▪ 2001: The Revised Pension System aimed to ensure the sustainability of Japan's pension system considering the aging population. Reforms included raising the pensionable age and adjusting the benefit levels. ▪ 2005: The Community-Based Integrated Care System was introduced, which emphasized the integration of healthcare, nursing care, and welfare services at the community level. The goal was to enable elderly individuals to continue living in their own homes and communities with appropriate support.
2010s Focus on Active Aging, Employment, and Technological Integration
▪ 2012: The Revised Elderly Employment Stabilization Law was enacted to promote the employment of older workers, raising the mandatory retirement age and encouraging companies to retain and rehire elderly employees. ▪ 2013: The Comprehensive Reform of Social Security and Tax policy aimed to secure financial resources for social security programs, including those supporting the elderly, by increasing the consumption tax. ▪ 2015: The Guidelines for Securing and Developing the Healthcare Workforce were established to address the shortage of caregivers and healthcare workers, especially in the context of an aging population. ▪ 2015: The Japan Revitalization Strategy included measures to encourage the participation of the elderly in the workforce and society, promoting the concept of "lifelong active participation."
2020s Technological Innovation and Future-Oriented Policies
▪ 2020: The Smart Aging Policy was introduced, emphasizing the use of technology, including robotics and AI, to assist in elderly care. This policy promotes the development of smart homes, telemedicine, and digital health platforms tailored to the needs of the aging population. ▪ 2020: The Fourth Basic Plan for Aging Society set out a comprehensive vision for an aging society, focusing on enhancing the quality of life for the elderly, promoting active aging, and ensuring sustainable social security systems.
2021: The New Childbirth and Childcare Support System was implemented to address the demographic challenges of an aging society by encouraging childbirth and supporting families.

Social Security benefits have unavoidably increased because of these actions. According to the data, social security payments totaled JPY 132 trillion in 2020. Of that amount, JPY 43 trillion went toward medical care, JPY 11 trillion went toward long-term care, and JPY 56 trillion went

toward pensions, making up 83% of the total. (Suzuki, 2023) With an aging population, national healthcare costs will probably rise.

3. Lessons from Japan's Aging Policies

Japan's economy, national income, and market have all suffered greatly as a result of demographic shifts. By reducing the natural rate of interest—the interest rate that sustains the nation's economy at full employment and maximum output while maintaining constant inflation—demographic shifts may place pressure on a nation's monetary policy leeway. The mere fact that there are fewer retirees and older individuals may have the effect of lowering total income. Reduced population and an aging population also lead to a labor shortage, which could affect productivity. The aging population is causing a shift in the consumer goods market. Market and business must adapt to an aging consumer base.

Different experiences might exist in other nations. However, Japan's recent experience has highlighted some of the major macroeconomic and financial repercussions. (Horlacher & MacKella. 2003) The key lessons drawn from Japan's approach are as follows:

3.1 Pension System Reforms

1. *Gradual and Adaptive Reform:* Japan's experience underscores the importance of implementing pension reforms gradually to allow society to adjust. For instance, Japan has gradually raised the pensionable age from 60 to 65, allowing both employers and employees to adapt to the changes. The use of mechanisms like the "macroeconomic slide," which adjusts pension benefits based on demographic and economic changes, demonstrates the need for adaptability in pension systems to ensure sustainability while maintaining intergenerational fairness.
2. *Balancing Sustainability and Adequacy:* Japan's reforms have focused on ensuring that the pension system remains financially sustainable in the face of an aging population, which has involved increasing pension contributions and reducing benefits. However, this approach also highlights the challenge of balancing sustainability with the adequacy of benefits, especially for those with lower lifetime earnings. Other countries can learn from Japan's ongoing efforts to strike this balance by encouraging private savings and supplementary pension plans.

3. *Encouraging Diversified Retirement Income:* Japan has increasingly promoted diversified retirement income through private savings, employer-sponsored pensions, and individual retirement accounts. This shift toward a multi-pillar pension system reduces dependency on public pensions and spreads risk—a strategy that can be particularly useful for other countries facing similar demographic pressures.

3.2 Employment Policies for Older Adults

1. *Extending Working Life:* Japan has emphasized the importance of extending the working life of older adults in response to an aging population and a shrinking workforce. The policy promotes the hiring of workers over 60 years old. Since 2013, companies have to employ people who wish to work after the retirement at age of 60. The abolishment of mandatory retirement at age 60 and the encouragement of re-employment up to age 70 reflect a policy focus on maintaining older adults in the workforce. This approach not only alleviates pressure on the pension system but also keeps older individuals engaged and economically active, benefiting both individuals and the economy. (Kuraoka. 2015)
2. *Creating Age-Friendly Workplaces:* Japan's emphasis on promoting age-friendly work environments, through legal frameworks and incentives for employers, highlights the importance of adapting workplaces to the needs of older workers. These policies encourage companies to retain older workers by offering flexible working conditions, job redesign, and opportunities for lifelong learning and skills development.
3. *Leveraging the Experience of Older Workers:* The establishment of Silver Human Resources Centers (SHRCs) in Japan underscores the potential of older adults as a valuable labor resource. These centers provide part-time work opportunities for retirees, leveraging their experience while allowing them to contribute to society. Other aging societies can adopt similar initiatives to provide flexible work opportunities and utilize the skills and experience of older workers.

3.3 Financial Support for Caregivers

1. *Comprehensive Long-Term Care Insurance:* Japan's Long-Term Care Insurance (LTCI) system is a pioneering model that provides financial support for elderly care, shifting the

burden from families to a collective, insurance-based system. The LTCI ensures that elderly individuals receive the care they need, whether at home or in institutional settings while reducing the financial and emotional strain on caregivers. This model offers a blueprint for other countries looking to create sustainable and equitable long-term care systems.

2. *Supporting Informal Caregivers:* Japan has implemented policies to support informal caregivers, such as family members, through financial allowances, tax deductions, and respite care services. This dual approach acknowledges the crucial role of family caregivers while providing necessary support to prevent burnout and ensure they can continue to provide care. Other countries can learn from Japan's comprehensive support systems to enhance the well-being of both caregivers and care recipients.
3. *Integrating Care into Community-Based Systems:* Japan's policy of integrating care into community-based systems, such as the Community-Based Integrated Care System, allows for a holistic approach to elderly care, combining healthcare, long-term care, and social services within local communities. This integration improves the accessibility and quality of care while fostering community involvement in caring for the elderly. This lesson is particularly valuable for countries aiming to create more supportive and inclusive environments for their aging populations.

3.4 Additional Policy: Immigration?

The impact of Japan's aging population on social inclusion, diversity, and the political and economic spheres Problems. A significant consequence of population decline is the labor shortage. Thus, the topic of Japan's immigration policy has been up for discussion recently. It has always been challenging for foreigners to live and work in Japan due to the nation's tight immigration laws and generally homogenous society (Chung, 2014). The stringent immigration laws in Japan make it challenging for foreigners to become citizens or secure permanent residency. The number of foreign workers who are permitted to enter the nation is strictly capped. Getting a work permit or visa can be a difficult and drawn-out procedure.

To alleviate labor shortages and spur economic growth, the government has been working to attract more foreign workers, a move made possible in part by the growing demand for international labor in recent years (Doerr, 2020). Some Japanese residents, however, have opposed it because they are worried about how immigration would affect Japanese society and culture.

Political disputes and discussions on immigration policy have resulted from this. While some disagree, others are advocating for changes to Japan's Immigration Control and Refugee Recognition Act.

Japan made significant changes to its immigration laws in April 2019, which marked a change in the country's immigration policies. Lower-skilled and semi-skilled foreign workers are permitted entry into Japan under the legislation for a maximum of five years. In the ensuing five years, it is anticipated to draw about 345,000 laborers (Oliver. 2023). Most recently, on April 21, 2023, the Japanese government unveiled a new, streamlined procedure for issuing visas to overseas professionals with advanced degrees. By providing preferential treatment to those who meet specified requirements, such as possessing a master's degree and an annual income of at least 20 million yen (USD 150,000), this new policy seeks to draw more foreign talent to Japan (Oliver. 2023).

To foster inclusive economic innovation, Paschaline, Prastita, and Mega (2023) suggest that proactive immigration policies, improved public-private partnerships, and fortification of the home and community-based care system are all necessary components of sustainable policy. Moreover, to fill the labor shortages in certain sectors, increasing the number of skilled worker visas is a necessity. This would help bring in highly qualified workers, including IT professionals, engineers, and medical personnel.

Mikiko Oliver (2023) proposes that a positive association exists between population aging and immigration is important. Japan needs to promote cultural diversity as it is a homogeneous society, and many immigrants have difficulty adjusting to the culture. Providing support for foreign residents to learn the Japanese language and culture, as well as encouraging Japanese citizens to be more welcoming of immigrants are the promotion of cultural diversity. Also, the government should create programs to support immigrants as they face significant challenges when it comes to social integration, such as finding housing, education, and healthcare. The support will ensure that they have access to the same services and opportunities as Japanese citizens.

4. The Silver Economy in Japan

Even though Japan's socioeconomic structure is under strain because to its changing population, official population predictions indicate that the silver economy will grow gradually. A larger portion of the overall demand in several core markets, such as housing, food, and household

products and services, is made up of older individuals. Businesses place a lot of emphasis on the silver economy, which consists of commercial ventures, goods, and services meant to meet the demands of Japan's elderly populace, especially those beyond 50. Given Japan's status as one of the oldest societies in the world, the silver economy therefore plays a crucial role in its overall economic landscape. There are many areas of the silver economy where markets are developing.

4.1 Healthcare and Long-term Care

1. *Healthcare and Medical Services:* There is a substantial demand for healthcare services tailored to the elderly, including specialized medical care, chronic disease management, and rehabilitation services. Japan has seen growth in the development and sales of medical devices and assistive technologies, such as hearing aids, mobility aids (e.g., wheelchairs, walkers), and home healthcare equipment designed to meet the needs of older adults. Additionally, the pharmaceutical industry in Japan has expanded its focus on medications for age-related conditions, including dementia, osteoporosis, and cardiovascular diseases.
2. *Long-Term Care Services:* The demand for nursing homes, assisted living facilities, and other forms of institutional care has grown significantly, leading to a booming industry in residential care for the elderly. There is also a robust market for home care services, where professionals provide assistance with daily living activities, nursing care, and home-based rehabilitation. Japan's Long-Term Care Insurance system supports a significant portion of these services, creating a stable market for care providers and related businesses.

4.2 Housing and Real Estate

The real estate market in Japan has adapted by offering age-friendly housing solutions, such as barrier-free homes, senior communities, and housing with built-in healthcare services. These communities offer a blend of independent living with access to medical and recreational facilities tailored to older residents.

4.3 Financial Services

Financial institutions in Japan provide a range of products geared toward retirement planning, including annuities, life insurance, and investment products designed to ensure a stable

income during retirement. With an aging population, there is a growing market for financial advisory services that help older adults manage their savings, pensions, and inheritance planning.

4.4 Consumer Goods and Services

There is an increasing demand for products that promote health and wellness among older adults, including nutritional supplements, fitness equipment, and wellness programs. The travel industry has also adapted to cater to the elderly, offering senior-friendly tours, travel packages, and recreational activities that are accessible and enjoyable for older travelers. The market for personal care products, such as skincare designed for aging skin, specialized clothing, and ergonomic household items, has expanded significantly.

4.5 Technology and Innovation

Japan is at the forefront of developing robotics and AI solutions for elderly care, including companion robots, robotic caregivers, and smart home technologies that assist with daily activities and monitoring. The use of telemedicine has also grown, providing older adults with remote access to healthcare professionals, thereby improving accessibility and convenience.

4.6 Employment and Education

Lifelong learning programs are a growing trend in Japan's aging society. Educational institutions and community centers offer programs aimed at helping older adults acquire new skills, stay mentally active, and remain engaged in society. The labor market has also adapted to include more opportunities for older adults, through flexible work arrangements, part-time jobs, and roles that leverage their experience and expertise.

Japan's silver economy is vast and diverse, contributing significantly to the national economy. It not only addresses the needs of an aging population but also drives innovation and growth in various sectors, from healthcare and technology to real estate and consumer goods. As Japan continues to age, the silver economy is expected to become even more central to its economic landscape, offering valuable lessons for other nations facing similar demographic challenges.

Conclusion

According to the study's findings, Japan's aging population significantly affects the country's social, political, and economic inclusiveness. It was believed that the aging and declining

population had a direct effect on the workforce (domestic or foreign), the labor market, and productivity, especially in labor-intensive areas like social services and healthcare. Social issues arise because of an aging population. Other nations can learn a lot from Japan's diverse policies, issues, and solutions in the political, social, and economic spheres about how to deal with an aging population. Nonetheless, given the shrinking working-age population, questions remain regarding the social security system's viability. Several foreign workers are therefore permitted to work in Japan under the implicit immigration policy. Social, political, and economic concerns have been exacerbated by this program.

Japan's silver economy is also made possible by its elderly population. Innovation in recently developing industries and markets is shown to be facilitated by the small and medium-sized firm sector. This sector focuses on robotics, artificial intelligence, and information and communication technology solutions. It also covers medical and health care devices, as well as devices that support mobility and independent living. Therefore, it is worthwhile to learn from Japan's aging society. For example, the elderly care industry requires professional workers with certifications in practical nursing (elder care). A significant number of international workers have migrated to Japan to work in this sector. Additionally, many Japanese elderly individuals have relocated to other countries, particularly to Chiang Mai, Thailand, presenting opportunities for the development of a silver economy in Thailand.

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