

BABY BOOMER

What happened to the 'Year 2007 Problem?'

BY DR. FLORIAN KOHLBACHER

Recent statistical data detailing the current global demographic shift indicates that Japan is by far the most severely affected nation with both a rapidly aging and shrinking population. This dramatic demographic shift comes as no surprise to veteran Japan market analysts and has spawned a number of studies focused on the future of the nation's workforce. In recent years, one particularly foreboding term that has come into regular use is the "Year 2007 Problem."

The "Year 2007 Problem" (*nisen-nana-nen mondai*) came about as a term designed to describe the anticipated retirement of the Japanese baby boomer generation from 2007 onwards. This generation consists, by definition, of those born between 1947 and 1949 and comprises a significant percentage of the labor force. Including also those born in 1950 and 1951, there are a total of 10.7 million people in the baby boomer generation, with 8.2 million belonging to the labor force in 2006—more than 12 percent of the entire labor force.

NISEN-NANA-NEN MONDAI: WHAT WAS IT ALL ABOUT?

The original forecast, made by many market experts, predicted that a large percentage of these baby boomers would retire when they reached their 60th birthday between 2007 and 2009. The expected retirement wave, in combination with the aging and shrinking population, was predicted to be the cause of severe problems on a micro- and macroeconomic level. For one thing, a large percentage of the potential retirees were knowledge experts; for another, the looming labor shortage was a cause for worry in terms of human resources in a country not known for encouraging mass immigration.

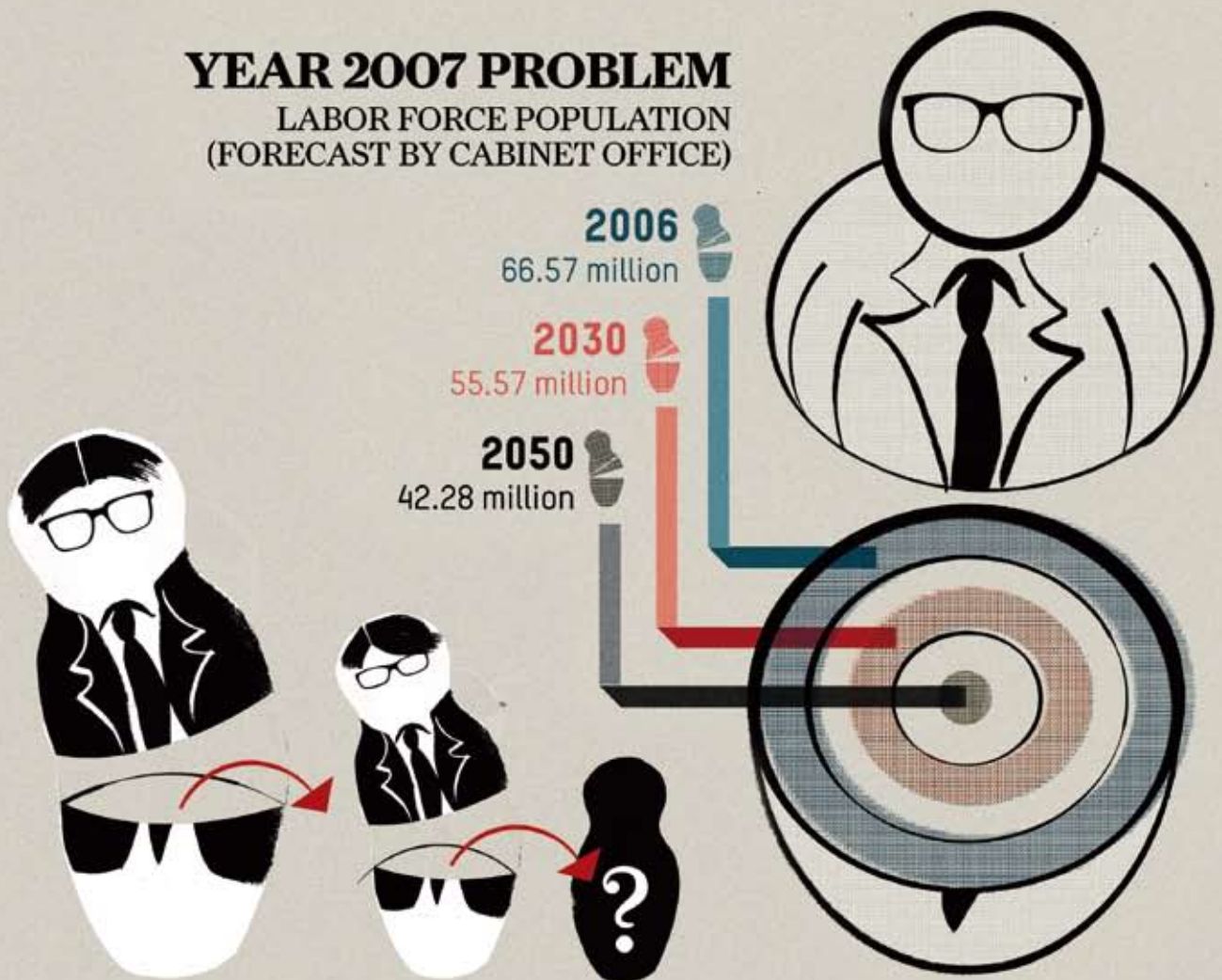
Indeed, even now, if no measures are taken to increase the number of seniors and women working in corporate Japan, the working population will see



ANOTHER IMPORTANT FACTOR THAT COMES INTO PLAY WHEN CONSIDERING THE IMPENDING RETIREMENT OF AGING EMPLOYEES (OFTEN THE MOST SEASONED EXPERTS IN THEIR AREAS) IS THE DISTINCTLY JAPANESE BUSINESS CULTURE APPROACH TO MANAGING EXPERTISE WITHIN LARGE ORGANIZATIONS. OFTEN BASED PRIMARILY ON TACIT KNOW-HOW, THESE ROLES, AND THE SUBTLETIES ASSOCIATED WITH THEM, ARE DIFFICULT TO ENCODE OR SOMEHOW STORE IN A DATABASE TO BE APPLIED TO A NEW HIRE.

RETIREMENT

YEAR 2007 PROBLEM LABOR FORCE POPULATION (FORECAST BY CABINET OFFICE)



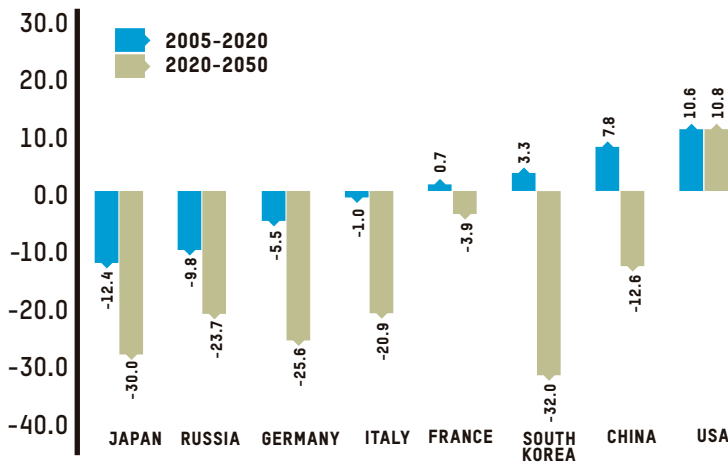
a dramatic decline. According to a white paper by the Cabinet Office, the labor force population that numbered 66.57 million in 2006 will decline to 42.28 million by 2050. And, by 2030, a decline of more than 10 million is feared. The outlook for Japan is indeed gloomy, even by international standards, as shown by the percentage change in the working age population covering those in the 15–64 years of age demographic (*See Figure 01*).

Another important factor that comes into play when considering the impending retirement of aging employees (often the

most seasoned experts in their areas) is the distinctly Japanese business culture approach toward managing expertise within large organizations. Often based primarily on tacit know-how, these roles, and the subtleties associated with them, are difficult to encode or somehow store in a database to be applied to a new hire. Because Japanese companies tend to focus on the direct transfer of know-how via personal communication and interaction, a company's discreet knowledge base is hardly ever externalized, that is, translated from tacit to explicit knowledge.

Moreover, the need for systematic and explicit documentation of knowledge is far less important in companies with a traditional Japanese employment system—lifetime employment and the seniority system—than in companies with a higher turnover, as is the case for many companies in Europe and North America. Know-how in Japanese companies is mainly passed on personally—during working hours and during social occasions in the evenings via “nomunication” (Japanese *nomu* = to drink)—and intrinsically in the context of on-the-job training. Of course, the transfer

FIGURE 01
PERCENTAGE CHANGE OF WORKING-AGE POPULATION (15–64 YEARS), 2005–2020 AND 2020–2050 (MEDIUM VARIANT)



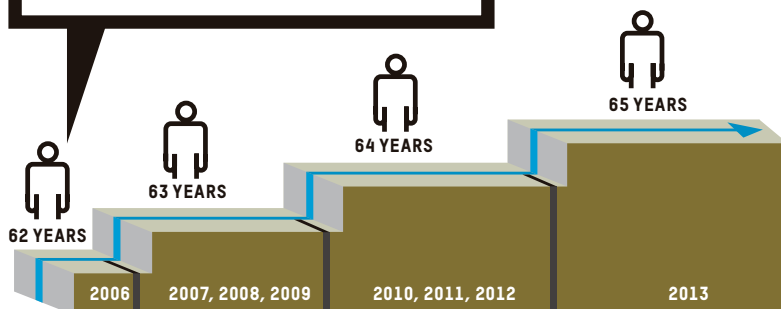
SOURCE: UN Population Division DESA, World Population Prospects – The 2008 Revision Population Database, 2009.

FIGURE 02
REVISED “LAW CONCERNING STABILIZATION OF EMPLOYMENT OF OLDER PERSONS” (AMENDMENTS 2006)

MEASURES FOR SECURING EMPLOYMENT FOR OLDER PERSONS

- 01 RAISING OF THE RETIREMENT AGE
 - 02 INTRODUCTION OF A CONTINUOUS EMPLOYMENT SYSTEM
 - 03 ABOLITION OF THE RETIREMENT AGE
- } Implementation of at least one of the measures is obligatory

Until 2013, the employer shall endeavour to raise said retirement age, introduce or improve the continuous employment system, or conduct other necessary measures in order to secure stable employment for the older workers concerned until they reach age 65.



SOURCE: Ministry of Health, Labour and Welfare (2006).

of tacit knowledge and its externalization require time, and thus the simultaneous retirement of several experts creates a significant problem.

DID THE ‘YEAR 2007 PROBLEM’ REALLY HAPPEN?


Amazingly, the anxiously expected retirement wave has yet to occur. According to the Labor Force Survey of the Japanese Ministry of Health, Labor and Welfare, the number of employees between the ages of 60 and 64 actually increased by 9.3 percent between 2007 and 2008, and then again by 4 percent between 2008 and 2009. This fact clearly challenges the assumption that a large number of retirees will come from this age group. A baby boomer survey conducted by the Japan Organization for Employment of the Elderly and People with Disabilities (JEED) in August 2008 painted a similar picture: 20.6 percent of the surveyed baby boomers said they were not working. More than three quarters are still working full-time and about the same number said they were still working due to financial necessity.

Yet another observation that contradicts the retirement wave theory is the high labor force participation rate among older coworkers, especially men. The labor force participation rate of males aged 60–64 increased from 70.9 percent in 2006 to 76.5 percent in 2009; for those males aged 65–69 it stands at 49.4 percent and for those older than 69 it is still 19.9 percent.

Between 2005—the year before the amendment of the “Law Concerning Stabilization of Employment of Older People”—and 2009, the number of regular employees aged 60–64 increased by 80.8 percent and the number of those older than 64 increased by 104.9 percent; a clear consequence of the amendment, which went into effect in 2006. This data gives companies, whose retirement age is less than 65, three options to modify the internal retirement policy by 1) offering continued employment, 2) raising the retirement age, or 3) simply abolishing the retirement age. The target is a retirement age of 65 by the year 2013 (See Figure 02).

CORPORATE RESPONSE

As for HRM (human resource management) strategies in relation to the baby boomer retirement in Japan, many firms emphasize



JAPANESE COMPANIES NEED TO PREPARE FOR THE INEVITABLE FACT THAT SOONER OR LATER THE POOL OF YOUNG JAPANESE WORKERS WILL DECLINE CONSIDERABLY. THIS DEVELOPMENT—PAIRED WITH AN OVERALL SHRINKING POPULATION—WILL FORCE COMPANIES TO ADJUST TO A HIGHER AVERAGE AGE OF THEIR EMPLOYEES IN THE COMING YEARS.

the employment of older workers as well as females, along with the development of the employees' skill sets. Recent surveys show that more than 80 percent of companies in Japan use a continued employment system: after reaching retirement age, employees are either directly re-employed or their employment is extended without discontinuation.

Generally, the contractual pattern most often used is a one-year contract that is renewable on an annual basis. The main reason for choosing this option is to reduce cost, as the employees usually earn significantly less after being re-hired. While many firms are planning to adopt HRM strategies for promoting the employment of older workers, only a small number are actually extending the mandatory retirement age or continuing to employ all those who wish to continue working. This can be seen as proof of the firms' cautious attitude toward expanding the employment of older workers.

As of today, 44.6 percent of all companies allow those employees who wish to continue working to do so until 65 and beyond; the proportion of companies where employees can work until 70 is around 16.3 percent. The fact that this figure is almost twice as high for smaller and medium-sized businesses than for large corporations indicates that the demand for continued employment might be considerably higher in smaller and medium-sized companies.

CORPORATE CHALLENGES

Despite the unexpected positive shift in employee demographics, there are also certain problems that can be anticipated with respect to continued employment or

the recruitment of senior employees. In the case of re-employment or continued employment on a contract basis after retirement (or after reaching the company's retirement age), employees are often asked to accept salary cuts of up to 50 percent. Younger employees, previously low within the company's hierarchy, now work in higher positions and are even sometimes direct superiors to their elders. Thus, many employees who continue to work or are rehired prefer to be transferred to another department, subsidiary or sister company.

But even if they manage to avoid former colleagues and subordinates, these older workers are still often ranked lower in the hierarchy than younger employees. This is difficult in Japan because of the strongly ingrained seniority system. The younger generation often feels somewhat restricted in terms of pushing for innovations and changes because of senior employees—usually solely committed to existing systems—who continue to work or who are rehired.


These issues, which arise from the fact that the Japanese baby boomers did not retire as expected, but rather stayed on to work, were summarized by business and demography expert Hiroyuki Murata as a result of what he calls a "Retire Moratorium." Note that the real dimension of these issues also depends on the situation of the individual employee, as well as the individual company and its preferences, which makes it difficult to give overall, across-the-board recommendations.

Nevertheless, Japanese companies need to prepare for the inevitable fact that sooner or later the pool of young Japanese workers will decline considerably. This

development—paired with an overall shrinking population—will force companies to adjust to a higher average age of their employees in the coming years. Furthermore, work procedures and the working environment are likely to change in the long term, as older employees in the workplace have different physiological as well as psychological capabilities and needs.

LOOKING AHEAD

Irrespective of when exactly a particular generation retired or will retire, a retirement wave did not occur in 2007. Moreover, even when changing the retirement age to 65, a subsequent "Year 2012 Problem" no longer seems as likely in light of the numerous options for companies and employers, as well as the effective retirement age being higher than the official one (almost 70 years old for men).

As a matter of fact, Japan has the highest number of working pensioners in the world, and a very high labor market participation rate with regards to older coworkers. Experts point to the fact that the most urgent issue for HRM in relation to age is the restructuring of seniority-based pay practices, but overall, the challenges associated with an aging and shrinking population are long term, as are the problems corresponding to an aging staff and a labor shortage that will require solutions applied to nearly all areas of corporate strategy. 



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