



Challenges Facing Japan's Social Security System

Lessons for Germany / Europe

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1. Introduction

Social Security is on the agenda of politicians, economists and journalists, and a subject of discussion and scrutiny in Germany and Japan. In Germany the political parties, as well as think tanks, industry associations and labour unions, are increasingly taking up the topic. On Jan. 28, 2026, the governing coalition of the Christian Democratic Union (CDU) and the Social Democratic Party (SPD) received a report on the Modernization and Digitalization of the Welfare State with 26 concrete recommendations.¹ The Commission entrusted with producing the report argues for a fundamental modernization of the social welfare system, particularly of the country's pension and health insurance systems. While some experts are calling for a paradigm shift, dramatic changes are not expected due to the current power balance.²

Japanese voters have given Prime Minister Sanae Takaichi and her Liberal Democratic Party a resounding victory with a two-thirds majority in the elections to the Lower House of the National Diet on February 8, 2026.³ With real wage growth in negative territory due to living costs outpacing pay, a consumption tax reduction was a major topic on the election trail. Be that as it may, financing the ever-increasing costs of Japan's ageing society has its firm place on Prime Minister Takaichi's agenda and Japan's 'budget-savvy housekeepers' (aka Mr. and Mrs. Watanabe) are well aware that cutbacks in social security outlays and increases in healthcare out-of-pocket expenses are in the offing.⁴

Societies which are associated with the "welfare state" are seen to be at a major turning point with increasing calls for major changes and a "paradigm shift" to secure the future viability of social security systems. Steering us on the way through this difficult terrain are think tanks, research commissions, and legislative initiatives, observed and nudged by the media, while the general public is pondering its best options. One senses the increasing gravity with which political, economic and societal actors, stakeholders and researchers engage with the economics, sustainability, equality and future of the issue. All the while the younger generation questions the equity of current social security systems.⁵

Stepping back from the easily politicized debates, everyone agrees that the 21st century is being shaped by major demographic trends such as ageing populations, continuing urbanization with shifts to metropolitan areas, migration within countries and across borders, and increased diversity that is reshaping cultural norms and social dynamics. In Japan and South Korea, as well as in Germany and other European nations, the rapid ageing of the population and uninterrupted decline in birth rates is giving rise to "super-ageing" societies with 20% or more of their population over the age of 65 years.⁶

Super-ageing societies face serious economic, fiscal, labour market and social issues. They face major shifts in the work force with the retirement of the postwar baby boomer generations, ultra-low birth rates that are insufficient to make up for the overall decreasing populations, and burgeoning social security expenses contributing to increasing public deficits, with higher insurance premiums and taxes burdening the remaining working population and corporations. These problems are accompanied by labour shortages across all sectors of the economy, but specifically in the healthcare and nursing professions needed by this ageing population. All these factors are now creating major headaches for policy makers, practitioners, and the ageing citizens of these societies, even though the challenges have been seen coming for many years.

Japan, a frontrunner "super-aged society"⁷, offers insights through the way in which it is tackling the challenges brought about by the ongoing and future demographic changes. Radical changes are difficult to propose, enact and digest, considering the impact on stakeholders and on social security systems that have grown over many years and need to work and be trusted by generations of citizens. However, incremental change may not be enough to sustain these systems now. All this requires prudent economic and fiscal decisions, societal consensus and cohesion between the older and younger generations, strong political will from leaders, investments in health care innovation and — last but not least — healthy lifestyle choices.

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We first assess where Japan stands in terms of demographics, both current and forecast, and then look at the making and coming of age of Japan's Social Security Systems and its "welfare state", reviewing its social security systems and the benefits and services its people need to "live healthy and secure lives", the purpose of social security.⁸ At times we shall compare the situation with that in Germany, which after decades of social and political stability faces similar challenges to its economic, social and political "social market economy" model. The challenges Japan and Germany face as super-ageing societies provide ample room to learn from each other's approaches.

2. Where Japan stands today in terms of demographics and what forecasts predict

Before we look at Japan's social security system, we should remind ourselves of some basic facts, in order to be able to better assess the situation the country and its population are in. Japan's total population stood at 123.80 million as of Oct. 1, 2024 with an elderly population (65 years and over) of 36.24 million, making up 29.3% of the population. Among these were 20.78 million so-called later-stage elderly (75 years and over), making up 16.8% of the population. The life expectancy of the Japanese in post-WW II Japan has been among the highest in the world, with men currently at 81.09 years and women at 87.13 years.^{9 10}

Japan is forecast to have a population of 116 to 117 million in 2030 and 99 to 100 million in 2050. In other words, Japan is predicted to lose about 20 – 25 million people between today and 2050. At the same time Japan's population is forecast to continue ageing rapidly, with the population above 65 years old forecast to be around 37 million (31 – 32%) in 2030 and 35 million (35 – 37%) in 2050, and the later-stage elderly (75 years and over) at 23 million in 2030 and 25 million in 2050. By 2050 over 1 in 3 citizens of Japan would be over 65, and Japan would become a "super-aged society".¹¹

While the ageing rate increases, the decline in Japan's birth rate contributes to the decrease in the total population as well, particularly among the working-age population, something that will have profound effects not only on the future of social security but on Japan's economic and social system as a whole. With a fertility rate of 1.15, Japan's annual number of births has further declined to 686,173 (2024) and the child population (ages 0 – 14) stood at 13.83 million, making up only 11.2% of the total population (as of Oct. 1, 2024). The number of employed persons stood at 67.81 million, with 1.76 million unemployed (unemployment rate: 2.5%, all 2024 national average).¹²

It is difficult to forecast annual births, but the number is expected to decline to about 550,000 to 600,000 in 2030 and 500,000 in 2050, with the fertility rate declining to 1.1 – 1.2 in 2030 and 1.1 in 2050 if current trends continue. It is to be noted that births are already falling faster than expected, with 2024 below the figure of 700,000 forecast, that fertility rates are far below replacement (2.1), and that the number and population share of children are falling faster than the total population. The number of employed persons is forecast to shrink to 65 – 66 million in 2030, but with more seniors working, and to 62 – 63 million in 2050, reflecting the long-term decline in the population. The impact of elderly, women, foreign workers, and AI remains to be seen, but labour shortages are already visible in several sectors and expected to become severe from 2030.

3. Historical Development of Social Security in Japan

Japan's "**basic institutional frameworks**" for social security were built during its transformation into a modern nation in the late 19th / early 20th centuries¹³. In **Meiji Japan** (1868-1912), when Japan ended its policy of isolation and opened up to foreign ships, people and trade, the country raced to

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catch up with the leading industrialized nations. Japan studied and adopted ideas and systems from its western teachers in administration and law, in medicine, in science and technology, in production, and in other areas, and new companies and industries sprang up in major cities and regions.¹⁴

Having scuttled the heritage of the feudal Tokugawa regime, the **Meiji Government's national policy priorities** centred on strengthening the military and promoting industry. It adopted what it deemed beneficial and practical for a modern nation state from Britain, France, Germany and the United States in order to strengthen its rule, its administration and its military. The rapidly growing economy was supported by the state and driven by scores of entrepreneurs, foremost by the businesses which evolved to become the conglomerates called Zaibatsu ("financial cliques"), wielding large influence over the economy and society.

The **political and social frameworks** that came with the modernization of Japan — the Meiji Constitution of 1889, the Imperial Diet, the electoral system and political parties, modern newspapers, magazines and books, groups fighting for human rights and political participation by the populace and labour unions — developed under the eye and influence of the Meiji oligarchy, composed of the Japanese governments of the time, the military and police, as well as economic interest groups. All this happened within a constitutional framework based on the legitimacy and primacy of the Japanese Tenno, in whatever way that might be interpreted by modern day historians.

The **foundations of social security in modern Japan**¹⁵ were gradually put in place, initially focusing on public health (e.g the **Communicable Disease Prevention Act, 1897**) and medical care. Labour adjusted to factory production, with labour movements becoming more active after WW I. Large shipbuilding and textile companies like the Mitsubishi Shipyard & Engine Works and the Kanegafuchi Spinning Company introduced **Mutual Aid Associations**, inspired by the "Sickness Fund for the Krupp Steel Factory in Cases of Illness and Death" (Essen, 1836, also a model for Bismarck's social legislation of 1883), introducing workers' benefits to stabilize the workforce, reduce labour mobility and provide for workers with accident or health issues, albeit still in a paternalistic working environment.

In the **Taisho Period (1912 – 1926)**, Japan first gained recognition as a major power in Asia as a member of the Anglo-Japan Alliance (1902 – 1923) and benefitted from a wartime export boom, but also saw organized labour gather strength in the postwar years, referred to as Taisho Democracy. This period saw Japan introduce its first modern day statutory social insurance with the **National Workers Health Insurance (1922)**. Passed by Parliament in 1922, it only became effective in 1927 due to the Great Kantō Earthquake of 1923, and it was for specific groups of employees, initially covering labourers but extended to farmers in 1938.

The **early Shōwa Period (1926 – 1945)**, covering the years of the **Great Depression** and up to the end of the Second World War, saw Japan's **first public assistance law** (1929), the **National Health Insurance Act** (1938) which laid the groundwork for Japan's **postwar universal health insurance**, and its first national old age insurance with the **Workers Pension Insurance Act** (1942), later renamed the **Employees' Pension Insurance Act** (1944). The latter required a long period of premium payments to receive payouts. One should, however, take note that **public health and medical policy were strengthened during the wartime period**, as an integral component of wartime mobilization. The **Ministry of Health and Welfare** (1938) was established as an independent ministry, but while such institutions were created in prewar and wartime Japan, they still lacked substance.

After WW II, social security gained traction in Japan and other **industrialized countries**. While the first decade (1945 – 1955) was one of economic reconstruction, Japanese citizens' basic human rights were enshrined in the **Postwar Constitution** (1946), and the **three welfare laws: the Livelihood Protection Act** (1946/1950), the **Child Welfare Act** (1947), the **Act on Welfare of Persons with Physical Disabilities** (1949). These laws were implemented under the auspices of the General Headquarters of the Supreme Commander for the Allied Powers (GHQ / SCAP). Also, the Beveridge

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Plan (1942, United Kingdom) with its **concept of universal coverage**, became known in Japan among experts and policy makers.

The **Employees' Pension Insurance Act** (1944) was amended in 1954, which led to universal pension coverage with the **National Pension Act** in 1961. This created the **framework of today's employees' pension system**. A milestone in Japan's postwar social security was the introduction of **universal health insurance** in the **National Health Insurance Act** (1961). In the transition towards **universal health insurance coverage**, existing schemes — employee insurance for regular employees, and national health insurance for the self-employed, farmers, and persons not in employment — were revised and expanded and **citizens' comprehensive access to healthcare was guaranteed for the first time**.

The **Income Doubling Plan** (1960) initiated Japan's **high-speed economic growth**, which attracted global attention, and the target was achieved in **less than ten years**. During the **period of high economic growth from 1955 until the onset of the first oil crisis in 1973** and during the **bubble era of the mid-1980s** with its exuberant stock market and property prices the **Japanese social security system expanded rapidly**: pension benefits were increased, health insurance benefits were extended, and financing was secured through rising wages and contributions. Policymakers also used the prosperity of these years to strengthen social legitimacy.

But while **1973** was dubbed the **First Year of Welfare**, the oil shocks and the end of the bubble economy clouded the outlook and signalled the end of the postwar growth model. In the late 1980s and 1990s Japan entered what came to be described as an era of **zero growth or low economic growth**. Also, in **1970**, Japan's **ageing rate** - the proportion of people aged 65 and over within the total population - **exceeded 7% for the first time**, making the rapid advance of population ageing unmistakably clear. It became evident that this would lead to sharp increases in the costs of social security, including pensions and medical care.

In **1979** the Liberal Democratic Party, which had advocated a **general consumption tax**, was forced to abandon it when faced with the prospect of electoral defeat. Strong public opposition blocked the path toward fiscal consolidation through tax increases. Fiscal reconstruction without tax increases became the policy priority of the 1980s. The **Second Provisional Commission for Administrative Reform** under Prime Minister **Yasuhiro Nakasone** initiated major reforms, including the **1981 revision of the Child Allowance**, the **1982 the Elderly Health Care Act**, the **1984 revision of the Health Insurance Act**, and the **1985** establishment of the **Basic Pension**, all with the aim of **restraining benefit growth** and **reducing the national financial burden**.

The **"lost decades" from the mid 1990s** brought a whole range of new problems. **Economic stagnation and demographic change** led to a weakening of the social security system's **revenue base**, while **expenditures increased due to the rapid ageing of society**. **Further reforms** were thus initiated: **pension adjustments to ensure sustainability** and **increases in out-of-pocket healthcare expenses**. National qualifications for **certified social workers and certified care workers** (1987) and the **"Ten-Year Strategy for Promoting Health and Welfare for the Elderly" (1989)** were adopted, leading to a dramatic expansion of in-home and institutional care services for older persons over the course of the 1990s. Finally, Japan **introduced Long-Term Nursing Care Insurance (enacted 1997 / came into force 2000)**.

Japan has not only **reorganized and integrated its systems but also addressed the new social needs of a low-birthrate, ageing society, expanding social welfare services** which lagged behind other areas of Japan's social security system, to make these services more accessible and user-friendly. Thus **incremental corrections and path dependency** instead of **radical system changes** have characterized policymakers' response, with **regular adjustments to the fee schedules or minor parameter corrections to pensions and contributions, ensuring political acceptance but avoiding major structural changes**.¹⁶

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Japan's economy, slowly emerging from the long recession of the 1990s, was again hit by the **2008 financial crisis**, the **global spread of COVID-19** in **2020** and more recently **Russia's invasion of Ukraine (Feb. 2022)**. Reconciling **increasing social security costs** brought about by the **prolonged economic stagnation and a rapidly ageing population combined with the declining birthrate** remain a **persistent and difficult challenge for Japan to the present**. Sharp increases in prices — particularly energy and food prices — and growing military expenditures, place additional burdens on Japan's economy and public finances.

4. Structure of the Social Security System in Japan

The development of social security systems in Japan has thus gone through a development phase (to 1961) with fragmented systems and the transition to universal health insurance, an expansion phase (1960s – 1980s) with high growth and expansion of pension and health benefits, and an adaptation phase (from the 1990s) with stagnating growth, increasing demographic pressure. These changes required incremental reforms and adaptation of social welfare measures but also the introduction of long-term care insurance to address the challenges of a rapidly ageing society. We now take a closer look at the structural characteristics of Japan's social security system.

Japan's social security system is organised primarily as a Western European style social insurance model with roots in the Bismarckian and postwar British social insurance systems, complemented by means-tested public assistance and a range of family and employment-related benefits. In institutional terms, the system is fragmented into multiple schemes, yet bound together by a strong state role in regulation, financing and price-setting. This section outlines the main structural pillars: health insurance, pensions, long-term care insurance, employment-related schemes, public assistance, and overall funding.

4.1 Health Insurance

Japan achieved universal health coverage in 1961 by extending insurance to the self-employed and non-employed, building on earlier schemes for civil servants and employed workers. The system today is divided into several schemes, but from the citizen's perspective it functions as a single universal right with free choice of provider, nationwide fee schedules and an "in-kind benefit system" (vs. a "reimbursement system") which guarantee a relatively high level of health services across Japan.¹⁷

Two broad categories are central:

- **Employees' Health Insurance (EHI)**
This covers salaried workers and their dependants. Employers like TOYOTA MOTOR CORP. and others often operate **Health Insurance Societies** or "society-managed" funds (in the tradition of the Mutual Aid Associations ("Kyosai Kumiai") of the early days of Japan's industrial development), while smaller employers are pooled in **Japan Health Insurance Association** schemes, some of them sector specific and others broader. Contributions are wage-related and shared between employer and employee. Benefits include medical care, sickness cash benefits and some maternity-related benefits.
- **National Health Insurance (NHI)**
Covering the self-employed, farmers, students, some unemployed people, and retirees not in the EHI, the NHI is **administered mainly by prefecture and municipalities**, with premiums based on income, household size and sometimes assets. For older people the **Medical Care System for the Advanced Elderly**, which covers those aged 75 and over, **is financed by contributions from working-age schemes and general taxation**, with co-payments between 10% and 30% depending on the income of the insured person. The financing for this is becoming more of a problem as the population of Japan rapidly ages.

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Across schemes, insured people pay co-payments at the point of service — typically 30% of costs for working-age adults, with reduced rates for children and higher reductions or caps for the elderly and low-income households. A high-cost medical care benefit mechanism caps out-of-pocket spending at a certain threshold and reimburses the rest, which is crucial for maintaining perceived fairness. Today, patients can generally assume that any treatment deemed necessary by a doctor in accordance with general medical standards will be covered by insurance.

However, not all medical care is covered by insurance. The following types of medical care are not covered by insurance and require full self-payment: 1. cosmetic surgery, 2. normal childbirth (a lump-sum childbirth and childcare allowance is available), 3. eyeglasses and hearing aids, 4. cutting-edge medical treatments still in the research stage, 5. special dental prosthetics, such as those made with ceramic materials, as well as 6. over-the-counter medications, such as cold medicine, purchased at a pharmacy.

The system also allows for differential payments. Insured medical care, which requires the same medical procedure to be priced at the same rate regardless of the hospital or doctor, is seen by some as overly uniform, bureaucratic, and economically unreasonable. There is, in fact, a strong demand for better service options, for which patients are willing to pay the cost themselves. However, allowing differential payments for important medical care risks makes it difficult for people with insurance to receive quality care without paying exorbitant fees.

A distinctive feature, highlighted by Yamagishi and others, is the **uniform national medical fee schedule**.¹⁸ The government, through MHLW and in consultation with stakeholders, sets the prices for virtually all insured medical services and pharmaceuticals based on recommendations from the **Central Social Insurance Medical Council** (Chuikyo).¹⁹ This fee schedule is revised every two years. It is the main lever by which the state can control total expenditure: by lowering fees in some areas and raising them in others, policymakers shape provider incentives and overall cost growth without overtly cutting benefits.

Structurally, then, **Japan's health insurance system combines fragmented risk pools with a highly centralised regulatory and price-setting regime**. This combination of **institutional fragmentation and regulatory centralisation** is central to understanding both its strengths (cost containment, universal access) and weaknesses (complexity, inequities between groups, government subsidies). **Private healthcare insurance focuses on specific areas such as cancer or provides additional benefits for those parts not covered by the national insurance scheme.**²⁰

4.2 Pension System

Japan's pension system²¹ has three layers, the **Basic National Pension** (public, mandatory), the **Employees' Pension Insurance** (public, earnings-related) as well as **Occupational and Private Pensions**. In a society where the elderly (65 years and over) make up a third of the population (29.3% in 2024), **43.4% of elderly households** (those with persons aged 65+) **receiving public pensions report that 100% of total household income comes from public pensions and veteran's pensions. For elderly households overall public pensions and veteran's pension benefits account for about 63.5 % of total household income, on average.**²²

Japan's **public pension system** has a **two-tier structure built on compulsory coverage**:

1. National Pension (Kokumin Nenkin)

All residents with an address in Japan aged 20 to under 60 are obliged to be enrolled in this basic pension. For employees, contributions are effectively built into the earnings-related scheme; self-employed and others pay a flat-rate contribution (as of April 2025 JPY 17,510 per month, contributions reduced or exempt for low-income individuals and students). Essentially a mutual aid system, this provides a flat-rate benefit (subject to contribution history, adjusted for prices and average wages) and secures a minimum old-age income.

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2. Employees' Pension Insurance (Kōsei Nenkin)

This pension scheme covers salaried workers above a certain working-hour and wage threshold. Contributions are 18.3% of earnings shared equally between employers and employees. Benefits combine the flat-rate basic pension component of the National Pension scheme (see above, workers are automatically co-enrolled) with an earnings-related component reflecting lifetime wages and contribution years. Civil servants and some other groups have historically had separate but now largely harmonised schemes.

The public pension system is a **pay-as-you-go system with partial funding**. Reserves to the amount of JPY 260 – 290 trillion, equivalent to about five years of pension benefits, are managed by the Government Pension Investment Fund (GPIF), but serve as a stabilizing buffer rather than for full funding. Based on a 100-year balance long-term design the aim is to use the reserves gradually, maintain stability and ideally still hold one year of reserves at the end of the projection period. **Current benefits are largely financed from contributions and tax transfers (90%) as well as reserve funds investment returns (10%)**. The system thus relies on a combination of pay-as-you-go, buffer reserves and investment income.

In 2004 Japan introduced the disposable-income slide, price slide and macroeconomic slide, that gradually adjusts benefit growth up- or downward relative to wage and price growth to reflect demographic changes. The **macroeconomic slide** is the key automatic adjustment mechanism aimed at keeping the pension system financially sustainable under rapid ageing but has led to a stagnation in benefits as pensions rise more slowly than prices.

In parallel to public pension schemes, in Japan **Defined Benefit** and **Defined Contribution** plans enjoy tax incentives. With **Defined Benefit Plans** (Kakutei Kyūfu Kigyō Nenkin), still common in large firms, the employer promises a defined future benefit which is based on salary and years of service. The employer contributions are fully tax-deductible, benefits are taxed as retirement income (favorable tax) and investment gains are tax-deferred.

Japan strongly promotes **Defined Contribution** plans (Kakutei Kyoshutsu Nenkin), the Corporate Defined Contribution and the Individual Defined Contribution (iDeCo), whereby the contribution is fixed, the employee bears the investment risk and the account is portable. The government strongly promotes the Defined Contribution Plans through tax advantages, aiming to strengthen retirement income security on top of the public pension system.

Also, in 2014 Japanese government launched the **NISA (Nippon Individual Savings Account)** as a tax-advantaged investment scheme to encourage households to shift savings from cash deposits into investments, with the aim of promoting long-term asset building and supplementing retirement income. After the 2024 reform ("New NISA") acceptance greatly increased, with about one-quarter of adults holding accounts (27 million accounts in 2025).²³ This scheme enjoys high satisfaction among users and is important to the government's asset-building strategy; it is a visible sign that Japan is shifting from a "savings culture" to an "investment culture".

Elderly households in Japan currently rely on a mix of public pensions as the main source of income (63.5%), employment income as a supplement (25.3% in 2024), asset income (4.6%), and private pensions. Typical Japanese public pensions are about JPY 58,000 – JPY 69,000 / month for the national basic pension alone and roughly JPY 230,000 / month for a model retired couple, corresponding to a replacement rate of around 50 – 60% of pre-retirement earnings for an average full-career salaried worker, while being only about half of that for national pension recipients, depending on career and contribution record.

To sum up, Japan's public pension, financed by contributions, tax subsidies and investment income, provides basic income security, but is rarely sufficient alone for a middle-class lifestyle. It needs to be supplemented by work and savings which is why many Japanese save for their retirement and work

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beyond retirement age. Japanese households hold JPY 2,100 – JPY 2,200 trillion in private financial assets, much of it in cash and deposits, but savings rates have declined in recent years and more savings are moving to investments.²⁴

4.3 Long-Term Care Insurance

In Japan elderly parents traditionally lived with their children and multigenerational households were common. As the parents would often live with the eldest son, the daughters-in-law were burdened with providing care. This model reflected the strong filial responsibility norms and the limited public long-term care provisions available. But by the 1980s – 1990s smaller families became the norm and more women were working, so that family care alone became unsustainable while at the same time ageing progressed rapidly.

The elderly needing long-term care who could not be taken care of by their family were treated in hospitals rather than care facilities. This “social hospitalization” took place because medical insurance covered the hospital stays and welfare services were limited. Thus hospitals became de facto nursing homes, resulting in long hospital stays for non-medical reasons and a rise in medical costs without a proper institutional framework to address the needs.

Care services existed under the Public Welfare System for the Aged, including home helpers, day care and institutional care homes, but these services were strictly means-tested and limited in supply with long waiting lists, and supplied at local government discretion. People often had to prove that there was no family able to care for them and that they only had low income before being eligible to receive care services.

With people needing nursing care in Japan thus relying mainly on family support, limited means-tested welfare services, and long hospital stays funded through medical insurance, there were heavy family burdens and healthcare costs rose. In response, **Japan introduced Long-Term Care Insurance** (LTCI, Kaigo Hoken)²⁵ in the year 2000 to provide for different levels of nursing care as a separate pillar of social insurance, a system essentially patterned after the German Nursing Care (Pflegeversicherung, 1995).

LTCI financing comes from premiums (ca. 50%, it was created as an insurance to facilitate funding) and taxes at national, prefectural, and municipal level (ca. 50%). Like health care, it relies on set fee schedules and service classifications, revised every three years, to control expenditure and allocate resources. Based on a “community-based integrated care” vision, it allows older people to age in place supported by local coordinated medical, care, housing and social services. LTCI has several defining features:

- Universal coverage from age 40: All residents aged 40 and over pay LTCI premiums either in the municipality in which they reside (for those aged over 65) or through health insurance, EHI/NHI, or directly for some categories (in the age group of 40 – 60).
- Eligibility based on care-need certification: Municipalities assess applicants and assign them to care-need levels, which determine access to services and benefit ceilings. Disabled people under 40 who require nursing care are not eligible for these benefits.
- Benefits in services, not cash: The system emphasises provision of in-kind services (home care, day care, institutional care) rather than cash benefits, although some cash components exist indirectly via family support.
- Cost-sharing: While half of the funding comes from the premiums and half from taxes, users pay a share of the cost (typically 10–30% depending on income; there are 9 – 13 income levels for individuals over 65), with caps and reductions for low-income groups.

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The number of LTC users increased from ~2.2 million (2000) to over 6.9 million today with a peak expected from 2030 – 2040, the key driver being the growth of later-stage elderly (75+). Shifting from institutional care to home and community care, it aims to utilize home-visit care, day care services and community-based integrated care. Costs are a major issue, having risen from JPY 3 – 4 trillion in 2000 to JPY 12 – 13 trillion in 2023/24 due to the increase in the elderly population, longer life expectancy, higher care intensity and rising labour costs.

Challenges from shortages of care workers, home helpers and nursing staff due to low relative wages, an ageing workforce and a declining working-age population can to some extent be addressed by the use of care robotics, sensors, AI-based care planning and smart homes. However, medical treatment and care for dementia or patients with complex chronic illnesses and an increase in the very old population (85+) require integrated care pathways and end-of-life care at home. An expanded user base comes with increasing LTCI premiums and co-payments (income-based) as well as pressure on the sustainability of municipal finances.

Against the backdrop of Japan's rapidly ageing society and changes in the traditional family fabric with fewer multigenerational households and more single-person elderly households, more elderly couples and more women in the workforce, the demand for LTCI and its services is expected to increase further in the coming years.

4.4 Employment-Related Insurance: Unemployment and Workers' Compensation

Japan's social insurance system also includes two key labour-market related schemes, Employment Insurance and Workers' Accident Compensation Insurance.²⁶ Persistently low unemployment and declining accident rates have reduced traditional pressures on these two employment-related insurance schemes. As our focus is on the issues confronting ageing societies the description of these schemes is kept to a short overview:

- **Employment Insurance (Koyō Hoken)**
Financed by contributions from employers and employees (with some state subsidy), it provides unemployment benefits, employment stabilization subsidies, childcare leave benefits and training support. It provides income replacement during unemployment, and active labour market policies, encouraging re-employment, training and job matching.
- **Workers' Accident Compensation Insurance (Rōsai Hoken)**
Fully financed by employers, this scheme provides medical care, cash benefits, disability and survivors' benefits for work-related injuries and occupational diseases. It functions as a mandatory insurance for workplace risks and is closely connected to occupational safety regulations.

These schemes both cover labour-market risks (unemployment, injury), although the coverage of non-regular workers has historically been more limited and remains an area of ongoing reform. However, ageing is shrinking the contributor base, increasing reliance on older workers, and shifting the risk profile toward more severe injuries, chronic conditions, and employment adjustment needs. Therefore these schemes are becoming more oriented toward supporting continued labour force participation and managing the new risks associated with an ageing workforce.

4.5 Public Assistance (Seikatsu Hogo) and Social Welfare (Shakai Fukushi) Programs

Beneath the Japanese social insurance system lies **Public Assistance** (Seikatsu Hogo), a means-tested safety net designed to guarantee the "right to maintain the minimum standards of wholesome and cultured living", i.e. the right to subsistence, for Japanese citizens who, for various reasons, lack sufficient income and assets. This was an important program in the immediate postwar period and has become important again in recent years as families or individuals struggle with their livelihoods in the face of increasing food and utility inflation.

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Key features include:

- Means-tested and last resort: Applicants must exhaust other options (family support, assets, other benefits) before qualifying.
- Comprehensive coverage: Cash support includes living expenses, housing assistance, medical assistance, long-term care, maternity, child education and funeral assistance.
- Municipal administration: Local welfare offices assess eligibility and provide casework support.

As of April 2024, including the annual average amount of five months of winter allowances, the monthly living assistance in Tokyo's 23 wards was JPY 77,520 for a single 20-year-old; JPY 164,860 for a household consisting of a 33-year-old man, a 29-year-old woman, and a 4-year-old child (including child-rearing additions); and JPY 122,460 for an elderly household of a 68-year-old man and a 65-year-old woman.

Despite its formal role as a rights-based safety net, which also builds on articles related to human rights in the Japanese Constitution, Public Assistance is associated with strong stigma and relatively strict gatekeeping. Currently ca. 2 million people (i.e. 1.5 – 1.6% of Japan's population) receive Public Assistance with higher rates among the elderly living alone, disabled persons and single-parent households. Coverage rates do, however, remain modest considering the increasing share of people with low incomes and those living in single-person households, which raises questions concerning adequacy and social perceptions.²⁷

Japan's **Social Welfare System** (Shakai Fukushi Seido) has well-accepted schemes that are not limited to low-income individuals and do not require prior contributions or enrolment. They provide **social allowances** such as family and child-related benefits (child allowance, child-rearing support), and disability benefits, as well as **social services** (facility-based or home-based) for specific groups (such as persons with disabilities and single-parent households), usually funded from general taxation.

The introduction of Japan's **Comprehensive Child and Child-Rearing Support System** reflects the effort that goes into childcare services (nurseries, certified childcare centres), early childhood education, child-rearing support and parenting assistance programs, all of which serve to enable parents to have more children and improve the environment for child rearing. Costs are borne by national and local taxes, social insurance related contributions (including from employers), and by the **Child and Child-Rearing Support Fund (2015)**.

Japan exhibits a paradoxical combination of **public concern about misuse, low take-up** of means-tested benefits and strong cultural norms around **self-reliance**. Japan's welfare culture therefore combines high universalism in health and pensions with weakness and stigma in last-resort welfare and policy debates framed around social responsibility, fairness, and burden-sharing (including more recently concerns about foreigners reportedly misusing the system).²⁸

4.6 Funding Structure and Intergovernmental Roles of Japan's Social Security

The overall funding of Japan's social security system is a complex combination of contributions and taxes, with significant intergovernmental (central, local) transfers:

- Social insurance contributions (employer/employee premiums) finance the bulk of pension, health and employment insurance benefits.
- Long-term care is financed roughly half by premiums and half by taxes, with contributions from national, prefectural, and municipal governments.

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- Public assistance and many family/disability programs are financed primarily from general taxation, again shared between central and local governments.
- The central government makes tax transfers and subsidies to local governments and insurance schemes to equalise fiscal capacity and support poorer municipalities.

Social security is now the largest single expenditure item in the general account of the Japanese government (JPY 38.3 trillion of JPY 115.54 trillion in FY2025).^{29 30} As the population ages and the working-age population shrinks, the share of social security financed through deficit bonds has increased, which motivates the Ministry of Finance's strong focus on cost control and "natural increase" suppression, an issue to be touched upon later.

4.7 Structural Characteristics in Comparative Perspective

In comparison with Germany (although a detailed review of the German situation is beyond the scope of this report) it is worth pointing out several structural characteristics of the Japanese social security system:

1. **Fragmented insurance, unified fee-setting:** Japan has multiple health insurance schemes but a single national fee schedule and strong central government control. Germany has statutory insurance and multiple corporate sickness funds with corporatist fee negotiation as well as private health insurance companies.
2. **Separate long-term care insurance pillar:** Both Japan and Germany have dedicated Long-Term-Care-Insurance systems, Japan here again following Germany, but Japan's is more tightly integrated into a broader "community-based care" vision and relies heavily on municipal-level planning.
3. **Strong but modest pension pillar:** Japan's pension replacement rates are not particularly generous by OECD standards, but coverage is broad and for the generation of baby boomers reliance on public pensions is high; occupational pensions remain relatively less developed compared to Germany's extensive corporate Betriebsrenten.
4. **Stigma around last-resort welfare:** Public Assistance exists but is under-utilised and only comparable in some respects to Germany's earlier Hartz IV (2005) and Bürgergeld (2023, under review). This tension between formal rights and social stigma will be discussed when reviewing the ongoing "adequacy" and "misuse" debates.

Together, the elements of Japan's social security system show that it is broad in coverage, institutionally fragmented but centrally regulated, and increasingly strained by demographic pressures. Sections 5 and 6 are based on and discuss (a) the major challenges and tensions that emerge within this structure, and (b) how different actors and stakeholders (ministries, parties, business, labour) seek to reshape it at the margins.

5. Major Issues in Japan's Social Security System

While Japan's social security architecture offers broad coverage and institutional stability, it faces a set of deep and interrelated challenges arising from demographic pressure, fiscal constraints, structural inequities, and complex institutional dynamics. The principal issues currently confronting the social security system are: **financial sustainability, adequacy of support, demographic change, labour market transformation, system fragmentation, and public perception / misuse debates.**^{31 32}

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5.1 Financial Sustainability and the Pressure of "Natural Increase"

The most fundamental challenge is the **rapid growth of social security expenditure** driven by ageing, developments in medical technology, and rising long-term care needs. Social security now accounts — as mentioned earlier — for the **largest share of the general account budget**, and its year-on-year "natural increase" (the organic growth in expenditures due to demographic and system changes) is the main source of fiscal pressure.

This "natural increase" is driven by the rapid ageing of the population, which shifts an ever-larger cohort into healthcare- and nursing care-intensive years. This shift comes with a growth in the prevalence of chronic disease that require sustained medical spending, a dramatic expansion of long-term care needs since the 2000 introduction of LTCL, and the shrinking of the working-age population, which reduces the contribution base.

As a result, a steadily growing share of social security financing is covered by **Japanese government deficit bonds**, raising concerns about Japan's long-term debt sustainability. This fiscal pressure motivates the **Ministry of Finance's** strong emphasis on expenditure restraint, cost-control through fee schedules, and protection of intergenerational fairness. At the same time, the **Ministry of Health, Labour and Welfare** stresses that reducing expenditures aggressively could undermine service access, workforce conditions, and the quality of care, making it hard for Japan's citizens to lead a healthy and secure life supported by social security. This policy tension is at the core of Japan's incremental reform trajectory.

5.2 Adequacy of Support and Growing Inequality

Despite its universal coverage, Japan's social security system faces significant **gaps in benefit adequacy** and **wage compensation** which create serious issues that might undermine the acceptance and functionality of the social security system in the mid- and long-term. These problems are currently particularly felt and visible for the following groups:

- Non-regular workers
- Women with interrupted career histories
- Single elderly individuals
- Care workers and workers in other low-wage sectors
- Low-income households hesitant to access Public Assistance due to stigma

Pension adequacy, i.e. replacement rates, in Japan are lower than in many OECD countries, especially due to the cumulative effect of the macroeconomic slide. Many retirees rely heavily on the basic pension, whose level remains modest. Elderly poverty rates — especially among single women — remain high at 20% in Japan vs. an OECD average of 12.5%.

Health and long-term-care access for low-income groups remains a problem, as income-related disparities persist even though the system caps out-of-pocket payments. Co-payments can remain a barrier for some people, and regional disparities in medical supply (notably between urban and rural areas affected by depopulation) complicate equal access.

Coverage gaps for non-regular workers have been identified as a major issue. Japan's labour market dualism — between regular and non-regular employment — historically excluded many part-time workers from earnings-based health and pension insurance. Although reforms since 2016 have expanded coverage, significant gaps remain, contributing to inequality in old age and reducing system revenue.

5.3 The Demographic Challenge: Super-Ageing and Shrinking Workforce

Above all, Japan's demographics, with its low fertility and extreme longevity, impacts and shapes every aspect of its social security system. While Japan currently has a net loss of ca. 900,000 Japanese

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citizens per year and a fertility rate of 1.15 (2024), migration from other countries, despite recent increases, remains at lower levels than in countries of the European Union.

Looking at the key demographic statistics reveals the severity of the pressures to which the Japanese social security system is exposed:

- the population aged **65+ already represents nearly 30%** of the population.
- the population aged **75+ is the fastest-growing group**, heavily using the LTCI.
- by 2040, the **dependency ratio** will exceed levels seen in any other OECD country.

All this means that fewer workers must finance more retirees, more medical care, and more long-term care. Considering the implications these developments will most likely have for the Japanese social security system we must consider

- Rising **LTCI premiums** and increased reliance on municipal taxation.
- Higher **medical insurance premiums** for working-age households.
- Pressures to increase the **pension eligibility age**.
- Workforce shortages in health, LTC, and other essential sectors.

These demographic realities create a strong structural bias toward cost control. Yet Japan's political and bureaucratic system constrains the magnitude of adjustments, due to actual needs and electoral factors (the high proportion of voters above 65 years old), thus contributing to the incrementalism (Yamagishi). The question is, however, at what point more radical adjustments become necessary due to unsustainable budget deficits.

Traditionally, the Japanese family system and Confucian inspired norms helped sustain a minimum of livelihood support within the family or with the help of relatives. In modern day Japan, with its increasing number of ageing caregivers in the family and a dramatic rise in single-person households, social security benefits and services may require new approaches. Having secured a comfortable majority, the re-elected Takaichi administration may be in a position to tackle them.

5.4 Labour Market Transformation and Structural Coverage Gaps

The expansion in the share of **non-regular workers** since the turn of the century — formerly around 20% but now around 37% of the workforce — makes the labour market more flexible in terms of demand and supply but leads to a misalignment with a social security system designed around stable full-time employment, despite recent changes in legislation.

The social security challenges that need to be addressed in particular are the failure of earnings-based insurance schemes to cover irregular workers, the complex contribution obligations under the basic pension system imposed on freelancers and gig workers, and low wages among non-regular workers reducing both contribution revenue and future benefit adequacy.

Reforms have gradually extended employees' pension and health insurance to include part-time workers, but implementation remains cautious due to political sensitivities and employer resistance. Only recently have government and employers started addressing the issues of non-regular employment and wage increases as part of a drive to secure the labour force.

5.5 Institutional Fragmentation and Administrative Complexity

While the state is taking the lead in many aspects of the social security system, it is typical for Japan's social security system — as with other areas — to be **organizationally fragmented**:

- Multiple health insurances (municipal NHI, employer EHI, elderly medical scheme).
- Multiple actors in LTC financing (municipalities, prefectures, national government).
- Separate governance for pensions, unemployment insurance, and public assistance.

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- Different contribution formulas and benefit rules across schemes.

This fragmentation creates inequities — for example:

- Different premium structures for NHI and EHI
- Benefit disparities for part-time vs. full-time workers
- Regional variation in LTC access
- Confusion for citizens navigating multiple systems

At the same time, this fragmentation creates a politically stable situation as coordinated and concentrated groups (e.g., municipal insurers, employer health funds, medical associations) benefit from the status quo, making fundamental consolidation politically costly, at least for now. Demands for more “radical” change tend to first come from new political players.

6. The Political Economy of Social Security Reform in Japan

Japan's social security system is shaped by an intricate balance of bureaucratic authority, political incentives, demographic and economic realities, and the preferences of influential societal actors such as employers, labour unions, and medical professionals. While Japan now faces one of the most severe demographic pressures in the world, the political and institutional environment to date has produced **incremental rather than transformative reform**.

This **institutional path dependency** creates a political economy in which no actor has both the incentive and capacity to implement large-scale structural change, resulting in rather incremental attempts at pension reform (raising retirement age, adjusting benefits, etc.), measures to control health care costs and their reluctant acceptance by the stakeholders, debates on immigration as a solution to labour shortages that, until very recently, were rather low-key, and last but not least shifts toward community-based welfare and local initiatives.

It is now time to look at how key actors in Japanese politics, bureaucracy, business, labour unions, professional associations — i.e. the major political parties and their think tanks, the Ministry of Finance and the Ministry of Health, Labor and Welfare, the main business organizations and advocacy groups, the trade unions and the Japan Medical Association — actively shape the trajectory of reform.

6.1 Political Party Dynamics

In these turbulent times of changing political landscapes and economic uncertainty Japan is often viewed as a bedrock of political and social stability, with the ruling Liberal Democratic Party (LDP) having reigned almost without interruption since its foundation — despite regular and sometimes unexpected changes in its leadership, as last seen with Prime Minister Sanae Takaichi. It has dominated politics and decision making, albeit in close coordination with the bureaucrats of Kasumigaseki (which refers to the seat of the ministries) and its partners.

Liberal Democratic Party (LDP)

As the dominant governing party, the LDP³³ tends to favour **gradual reform**. It is fiscally conservative — at least on the Japanese political spectrum — but electorally dependent on older voters and interest groups, making deep benefit cuts politically risky. The LDP therefore has continued to support incremental pension adjustments, co-payment reform for higher-income seniors, hospital functional differentiation, and modest employment insurance revisions. With a historic two-thirds supermajority in the House of Representatives, 316 out of 465 seats, giving the LDP significant control over legislation and governance, that may change.

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Japan Innovation Party (Ishin)

Born out of Western Japan's Kansai region, the Japan Innovation Party³⁴ has, with the advent of the administration led by Prime Minister Sanae Takaichi in the fall of 2025, gained influence. Supporting Takaichi but not participating in the government with ministers, it advocates comprehensive social security reform centred on fiscal sustainability, reduction of social insurance premiums for the working-age population, and structural reform of the pension and healthcare systems to address inter-generational inequities and rising ageing-related costs with reduced subsidies, more self-reliance, and market-oriented mechanisms, but its influence on policy would still seem limited at this point given the strengthened LDP.

Opposition Parties (CRA, CDP / Komeito, JCP, DPP)

The February 2026 Lower House election results were a major setback for the largest opposition parties, the Constitutional Democratic Party (CDP) and the Komeito, which had newly formed the Centrist Reform Alliance (CRA). This party lost 118 of its 167 seats. The gamble of forming a new party shortly before the election did not pay off for the CDP or the Komeito, the LDP's former longtime coalition partner. It remains to be seen how the new leadership of the CRA and the remains of the CDP and Komeito in the Upper House regroup, but their influence on policy making has definitely been capped.

The LDP's long-time coalition partner, Komeito, had always emphasized welfare protection, limiting the extent of retrenchment in the social security system. Komeito had often secured concessions in the policy process serving to protect low-income households, caregivers, and vulnerable elderly, which reflects the interests of their electorate. It remains to be seen how much influence Komeito can wield now that it has left the administration, how it can align with the policies of the CDP and how the CRA will be accepted going forward.

The centre-right Democratic Party for the People (DPP)³⁵, which achieved good results in the February 2026 Lower House elections (28 seats), emphasizes increasing workers' take-home income through tax and social insurance relief measures, including consumption tax reduction, expanding middle-income tax deductions, reducing social insurance contribution burdens, promoting wage growth and consumption, and adopting a growth-oriented strategy to support economic revitalization and household income stability.

The Japan Communist Party³⁶ which fought an uphill battle in the Feb. 2026 election (4 seats) promotes welfare expansion, the reduction and eventual abolition of the consumption tax, increasing caregiver wages, more generous pension minimums, and a minimum hourly wage of JPY 1,700, financed by higher corporate taxes. The right-wing Political Participation Party (Sanseito), with its "Japanese First" slogan focusing on immigration and the misuse of social security benefits by foreigners, is limited in its influence although present in the election campaign, but provides ideological discussion points in the public debate on the social security system.

Expected Continuation of Incremental Reforms

While the advent of the Takaichi administration, strongly influenced by former core members of the Abe Faction, and its support by the more radical Japan Innovation Party (and indirectly by more populist strains in the Japanese electorate) creates opportunities for more radical reform, as long as the Liberal Democratic Party remains in the driver's seat, we should expect to continue to see incremental reforms, although there are signs that it may be willing to go beyond this.

6.2 Bureaucratic Dualism: Ministry of Finance vs Ministry of Health, Labour and Welfare

While political parties must face the electorate and represent the will of their supporters, to a large extent the power to shape and keep the Japanese administration running lies with the ministries in Kasumigaseki. As is the case with other domains, the central government ministries — in particular the Ministry of Finance (MOF) and the Ministry of Health, Labour and Welfare (MHLW) — are a strong defining feature of Japanese social policy, in coexistence and rivalry as two powerful ministries with

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different institutional missions and constituencies. Policy outcomes often reflect negotiated compromises between fiscally conservative finance officials and welfare bureaucrats defending programmatic commitments.³⁷

The **Ministry of Finance (MOF)**, particularly the Budget Bureau, occupies a central role in shaping the fiscal boundaries within which social security policy must operate. Briefing packs, fiscal council materials, and budget explanations reveal that Japan's social security system is financially unsustainable without continuous structural restraint. MOF frames the challenge as one of demographic inevitability, intergenerational fairness, and maintaining economic vitality in the face of rapid ageing. MOF's concern about fiscal sustainability leads it to keep the "natural increase" in expenditures in check, protect intergenerational fairness, and preserve Japan's fiscal credibility using premium restraint, co-payment adjustments, the macroeconomic slide in pensions, and the biannual revision of the medical fee schedule.

Social security spending has grown far faster than the overall budget since 1990 and now constitutes the largest single expenditure category. Much of this growth is financed through deficit bonds, generating a structural imbalance. Therefore, expenditure reform is indispensable, as they cannot rely purely on revenue measures. Three principles underpin the MOF stance on health insurance, long-term care, and pensions: Sustainability — Curb the natural growth of social security expenditures; Fairness — Ensure balanced contributions across generations and income groups; and Work-Style Neutrality — Adapt social systems to diversified forms of employment so that burden-sharing does not disproportionately fall on regular employees.

In **Medical Care** MOF aims for targeted fee schedule reform and premium restraint as highlighted by MOF briefings. The 2026 medical fee revision is seen as a key moment for systemic adjustment in FY 2025 – 2026. MOF maintains that medical insurance premiums for working-age contributors cannot continue to rise without harming competitiveness and wage growth. MOF advocates granular, data-driven fee schedule revisions that allocate increases selectively to hospitals and critical care functions, and pushes for restraint or reductions in areas where margins remain high in clinic practice and pharmaceutical dispensing.

In addition, strengthening primary care ("kakaritsuke", similar to the German Hausarzt) is to help reduce duplication of patient visits to doctors and unnecessary referrals. Pharma price revisions are to better reflect market realities and reduce overpayment, developments which are closely watched by the pharma industry. In effect, MOF's medical-cost strategy relies on micro-level price regulation as its primary tool, echoing Yamagishi's characterization of the system as institutionally "sticky" but highly effective at cost containment.

In **Long-Term Care**, MOF aims for premium control and equity adjustments as long-term care (nursing care) expenditures continue to rise sharply due to the rapid growth of Japan's "oldest-old" population. Here MOF again stresses premium restraint, warning that unchecked increases will fall disproportionately on the working-age population. MOF proposes to align benefit growth with fiscal reality, adjusting service fees in line with actual cost structures and improving efficiency and coordination between medical and long-term care providers.

An increasingly important point in the policy discussion is the equity of long-term care. Here MOF focusses on incorporating financial assets income into contribution assessments to address disparities between people who do and do not file tax returns. This is framed as essential for securing equity (Koheisei no Kakuho), a recurring MOF priority. It will have to be seen how this issue is handled by the Takaichi administration but early statements on social security policy point in this direction.

In **Pension Policy** MOF reaffirms the necessity of the Macroeconomic Slide, the mechanism that moderates benefit indexation relative to wage and population developments. This tool is viewed as essential for maintaining intergenerational fairness under demographic decline. MOF argues that the

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macroeconomic slide must be fully and continuously applied, without political suspension. Pension sustainability depends less on contribution increases than on automatic adjustment. Japan must maintain a “rules-based system” rather than ad hoc political interventions of the type we have seen again and again in Germany.

MOF's **cost-control toolbox** can be seen at work across all social security domains where it is able to deploy a consistent set of fiscal instruments such as expenditure ceilings guided by the government's “Basic Policies”, price regulation in medical and long-term care services (the fee schedule) and income-based fairness adjustments, including expanding contribution assessment to financial income as well as promotion of efficiency in service delivery through digitalization and care coordination. To achieve its goals MOF draws up multi-year reform roadmaps to continually reduce structural spending pressure. Fundamentally, MOF sees incremental but steady expenditure discipline as preferable to radical institutional reform.

Japan's **Ministry of Health, Labour and Welfare (MHLW)**, on the other hand, takes a substantially different stance from that of MOF. Where MOF emphasizes fiscal consolidation, fairness, and cost control, the MHLW emphasizes service adequacy, universal access, workforce sustainability, and the long-term societal role of social insurance. Their views often partially overlap, but their priorities differ as evidenced by White Papers, Council Reports, and MHLW Reform Roadmaps 2023 – 2025.

The overarching MHLW view of social security is that of a system providing for “Security, Dignity, and Participation”. Across White Papers, advisory councils and reform documents, MHLW frames social security as a public safety net enabling people to live with dignity across their lifespan, a foundation for social stability and economic productivity, not merely an expenditure item, and a system requiring continuous modernization, not only cost control.

MHLW's position on **Medical Care (Health Insurance)** stresses the priority of maintaining universal, equitable access, repeatedly emphasizing that maintaining Japan's universal health coverage (UHC) is a core national achievement. Thus, MHLW is cautious about reforms that reduce access, increase out-of-pocket burden too sharply, or threaten equality across regions (between metropolitan and regional areas).

Where MOF tends to push harder for expenditure restraint, MHLW stresses that fee schedule revisions should balance cost control with quality and workforce stability, arguing that fee schedule revisions must reflect actual costs of labour in hospitals and clinics, that remuneration should ensure adequate staffing, especially for nurses and care workers, and that rural and small medical institutions need protection to ensure regional access. MHLW focuses on quality, availability, and workforce retention, not just expenditure ceilings.

MHLW policy therefore puts a strong emphasis on Regional Medical Care Plans and supports reorganisation and consolidation of hospitals only when this helps maintain service quality and the viability of primary care networks. As rural regions see a stronger decline of population with the oldest population remaining in the regions and the younger and more affluent population moving to regional or national centres, these priorities will, of course, sometimes conflict with the MOF's stronger push for consolidation.

MHLW's position on **Long-Term Care (LTC)** prioritizes efforts to expand and stabilize the caregiving workforce, as the care worker shortage is forecast to reach tens of thousands of caregivers in the 2030s. To be able to handle this situation, working conditions must improve through higher wages and training support. Thus, MHLW often supports raising certain LTC fees to improve wages, even when MOF resists.

In order to be able to maintain benefit levels and service diversity in LTC, MHLW considers it essential to promote and achieve ageing in place — in the home or in the community — reducing hospital

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congestion and maintaining family stability. MHLW therefore tends to oppose strict cuts to the scope of benefits, large increases in co-insurance premiums and payments for the elderly and any rapid consolidation of LTC providers.

Promoting community-based integrated care has been a decades-long project for MHLW, aiming to integrate medical care, LTC, housing, and prevention services locally, thus shifting care from institutions to communities, and reducing total medical spending by managing frailty earlier. An interesting example of managing frailty earlier is the MeByo (prevent getting ill) initiative in Kanagawa Prefecture (Yokohama).

MHLW's position on **Public Pensions** is to preserve benefit adequacy while keeping the macroeconomic slide mechanism. MHLW agrees with MOF that the macroeconomic slide is essential for the sustainability and credibility of the public pension system. However, MHLW emphasizes that it wishes to prevent excessive declines in real pension adequacy, and monitor elderly poverty, particularly among women and irregular workers.

MHLW focuses on expanding coverage and reducing non-participation in the pension schemes, bringing part-time/irregular workers into Employees' Pension Insurance, introducing simple mechanisms for the self-employed and freelancers, and improving pension literacy. MHLW supports transitional support for low-income elderly, safety-net measures such as stronger pension minimums, housing and medical subsidies, and income support for single elderly individuals.

Overall MHLW sees **social security** not only as a cost but as an "investment in people". Its reform logic includes supporting labour participation (by women and seniors), improving population health to reduce future healthcare costs, preventing social isolation and frailty, and aligning with Japan's demographic realities. MHLW in a nutshell views social security as a public good that maintains population well-being, labour force quality, and social cohesion. It prioritises maintaining adequate benefits, reducing regional disparities, supporting caregivers and medical staff, and ensuring equity of access. With its stakeholders and interests in mind, MHLW is more cautious about service cuts, hospital consolidation, or measures that might exacerbate inequality.

Bureaucracy at its Best: Negotiated Incrementalism

The bureaucratic interplay to date has resulted in negotiated incrementalism, where, on the one hand, cost pressures affecting the domains of the social security system are acknowledged but, on the other hand, reform is tempered by concerns about access and backlash from core stakeholders as well as financial sustainability and workforce availability and stability. Radical reforms — merging insurance schemes or dramatically changing pension formulas — rarely advance but may arrive as the population rapidly ages and fiscal strains increase.

6.3 Employers vs. Labour Unions

Japan's business organizations³⁸, labour organizations and lobbyists take a strong interest in decisions regarding the social security systems and influence these through their talks with the main political parties, the government, and the ministries, as well as through representation on the numerous advisory councils that shape economic and social policy in Japan and which serve to legitimize decisions.

The business sector's primary concern is the cost of employer social insurance contributions which is addressed by the organisations Japan Business Federation (Keidanren), Japan Association of Corporate Executives (Keizai Doyukai) and the Japan Chamber of Commerce & Industry (JCCI). Employers advocate keeping premium increases minimal, raising the retirement age, expanding private pension arrangements, encouraging consolidation and digitalization in health and LTC, and increasing co-payments for affluent elderly. Business lobbies generally align with MOF in prioritizing fiscal prudence and efficiency.

The labour unions, on the other hand, focus on benefit adequacy, worker protection, and

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distributional fairness, issues addressed by major national labour unions such as the Japanese Trade Union Confederation (JTUC-Rengo) Rengo³⁹ and National Confederation of Trade Unions (Zenroren)⁴⁰. They advocate for higher wages for care workers and medical professionals, expanded pension rights for part-time and irregular workers, and maintaining low co-payments and universal access, and oppose hospital closures that reduce regional access. Therefore unions align more closely with MHLW and the centre-left political bloc.

6.4 Medical Professions, Municipalities and other Actors

Beyond business and labour, **associations such as the Japan Medical Association⁴¹, the national and international Pharma Associations, and local governments** exert significant influence on measures and reforms impacting Japan's social security system. Physician groups resist strong consolidation measures and defend existing practice models. Pharma groups try to limit the impact of fiscal consolidation on their business. Municipalities administer NHI and Public Assistance and therefore resist reforms that increase local administrative or fiscal burdens. All this reinforces the system's **institutional inertia**.

6.5 Systems Geared Toward Incrementalism

Japan's political economy produces a pattern of reform characterized by:

1. **Micro-scale adjustments** (fee schedules, minor pension parameter tweaks)
2. **Consensus-seeking bureaucratic negotiation**
3. **Avoidance of politically costly structural overhaul**
4. **Deference to existing institutional actors**
5. **Gradual diffusion of responsibility across ministries and levels of government**

This configuration prevents a collapse of the Social Security Systems but stands in the way of bold reform. Japan stabilizes its social security system through **continuous small adjustments rather than systemic redesign** — a pattern reinforced by ageing demographics, stakeholder compromise, and bureaucratic balancing and political horse-trading.

7. Key Take-Aways and Lessons Learned: Japan and Germany

Japan and Germany share core similarities — both are rapidly ageing, high-income societies with European style welfare institutions going back to the Bismarckian social insurance laws with influences from other foreign peer systems and their own traditional societal fabric — **but their reform trajectories, political economies, and policy instruments diverge in important ways**.

This section highlights the main points of comparison across structure, challenges, politics, and institutional capacity for reform in both countries. Both countries face rapid ageing, a shrinking workforce, challenges to the financial sustainability of pay-as-you-go pensions and dramatically increasing shares of the national budgets taken up by social security payments, as well as continuously rising healthcare and long-term care costs.

7.1 Structural Overview: Similar Foundations, Different Architectures

In **Health Insurance** both countries employ social insurance models, but institutional arrangements differ: Germany uses corporatist negotiation between sickness funds (Krankenkassen) and provider associations. Japan uses centralized price-setting through a national fee schedule which enables stronger technocratic cost control; Germany's corporatist model yields more pluralism but less uniform control and higher costs.

In **Long-Term Care Insurance** both countries introduced LTCI (Germany 1995, Japan 2000), in which it is said that that Japan "copied" Germany's LTCI one for one. However, Japan's system is

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more municipality-driven and integrated with community care, while Germany's is more federal and corporatist, with stronger reliance on family and cash benefits. In both countries family care givers continue to play important roles.

In **Pension Schemes** Germany implemented substantial reforms: the sustainability factor (Nachhaltigkeitsfaktor), raising of the retirement age to 67, expansion of occupational pensions, and introduction of private Riester pensions. Japan relies primarily on the macroeconomic slide, with much more modest adjustments, accentuated by years of deflation and post Covid-19 inflation, and less development of occupational pensions.

7.2 Demographics: Japan as the More Extreme Case

Both Japan and Germany are rapidly ageing, but Japan's demographic profile is more severe. Japan has the world's highest percentage of population aged 65 and over and its fertility, at 1.15, remains below Germany at 1.36. On the other hand, Germany benefits from immigration with its population the highest since World War II due to numerous waves of immigration which, of course, cause numerous other problems in German society and politics.

Japan remains much more cautious in the area of immigration, a position which is much easier for an island country with a long tradition of very strictly controlled immigration. Nevertheless, sheer economic need, with a rapidly dwindling labour force in core sectors (nursing, construction, agriculture and others), as well as an influx of Chinese immigrants (students and rich Chinese seeking a better life in Japan), cause serious issues.

7.3 Discourse on Fiscal and Political Constraints

Over decades Germany's political system has seen coalition governments alternating between centre-left and centre-right coalitions, a situation which has produced periodic windows for major reforms of the Social Security System such as the Hartz Reforms and the Agenda 2010 under Chancellor Gerhard Schröder and which did for a time improve the competitiveness of the German economy, which has, however been lagging in recent years.

Reforms such as pension adjustments and private pension pillar creation, German Federal LTC reform cycles, and the adoption of DRG-based hospital financing were, however, not all considered to be successful or to serve their intended purpose. The corporatist nature of German policymaking spreads responsibility across social partners, enabling negotiation-based structural reform which also makes radical reform difficult and has seen the social partners uniting in decisions that are not sustainable and equitable in the long run.

In Japan the LDP has ruled continuously with only few interruptions for decades, more often considering the effects of reforms on older voters' electoral behaviour. Bureaucratic influence in Japan would seem to be stronger than in Germany, and business lobbies have successfully resisted contribution increases. Medical professions resist radical structural changes and rightly point to issues of compensation and long working hours. This has resulted in a political bias toward gradualism, protecting the system at the cost of comprehensive modernization.

7.4 Public Assistance and Poverty Responses

As competitors to the established industrialized nations of Japan and Germany gain a competitive edge, their industries need to rationalize, cut workforces, reinvent and digitalize themselves. At the same time, inflation is eating up wages increases. In this situation, both countries face the need to provide support for the weakest and most needy in their societies, highlighting the importance of Public Assistance and Poverty Responses.

In Japan Public Assistance remains highly stigmatized and sees a low take-up despite a high proportion of elderly poor. But poverty is not limited to the elderly, as many families and single parents

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struggle to make ends meet in an increasingly inflationary environment. Strict gatekeeping by municipalities would seem to keep a cap on the use of such public assistance schemes in Japan.

In Germany there has been a long and in-depth discussion about the Bürgergeld (formerly Hartz IV) which is widely applied and provided, and a heavy burden on communal finances. While there is less stigma attached to the Bürgergeld, public debates on the effect it has on workers and their motivation to find and return to work continue and misuse is talked up. Stronger activation policies and a broader support infrastructure are intended to address this problem.

7.5 Comparative Overview of the Capacity to Reform

The following table provides an overview of the capacity to implement reform in social security in institutional terms.

Area	Japan	Germany
Fee-setting power	Very centralized	Distributed (corporatist)
Pension reform capacity	Limited (incremental)	Higher (multiple reforms 2000 -)
LTC reform	Incremental, municipally driven	Periodic national overhaul
Labour market integration	Slow expansion to part-time workers	Early incorporation of atypical workers
Immigration for care workforce	Limited, cautious	Broad recruitment from abroad

From this overview it would seem that Germany's fiscal federalism (Bund and Länder) and corporatist negotiation patterns as well as alternating coalitions offer more opportunities for structural reform. On the other hand, Japan's single-party dominance, bureaucratic balancing and stakeholder vetoes would seem to lock in path-dependent evolution with less rupture at lower levels of benefits but at an increasing cost in terms of government indebtedness.

7.6 Lessons and Cross-Inspiration

Japan might learn from Germany as regards the broader use of occupational pensions, a more decisive labour market integration of non-standard workers, a more open immigration policy to stabilize the care workforce, and stronger federal-level LTC governance to reduce regional disparities.

Germany might, on the other hand, learn from Japan that a national fee schedule is one of the world's most effective cost-control instruments, that Japan's integrated community-based LTC model offers a long-term vision for ageing societies and that digitalization in care insurance and medical billing is more advanced in Japan.

8. Future Outlook

The second Takaichi Administration has announced the creation of a cross-party National Council on social security burden-sharing, indicating a willingness to revisit questions long considered politically untouchable: co-payment structures, eligibility criteria, tax-based benefits, and the segmentation of

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insurance schemes. This signals a potential departure from the LDP-Komeito pattern of protecting benefits for older voters. Takaichi highlights the aim to achieve “sustainability through structural review” with a public discussion of burdens and benefits. Concrete proposals for the alignment of social security reform with economic revitalization (“Sanenomics”), however, remain limited at this time, and it would seem that there is still a significant policy distance between LDP conservatives and Ishin reformists.

The Ishin party advocates some of the most reformist social-security policies in Japanese politics, including increased co-payments for affluent elderly, reductions in coverage for low-value medical services, large-scale hospital reorganization, pension age increases and benefit redesign, and promotion of private retirement saving as well as streamlined drug and dispensing coverage to reduce public expenditures. While the Takaichi administration is unlikely to quickly adopt Ishin's proposals, they shift the centre of gravity toward stronger cost control and structural review, especially in medical care pricing, long-term care financing, high-income elderly contributions, public assistance eligibility reform, and labour market activation and flexibility. This ideological tilt makes more ambitious reforms politically feasible, even if difficult. At the same time financial resources will be redirected to defence and other areas to strengthen the resilience of the Japanese economy.

9. Conclusion: A System at a Political Turning Point

Both Japan and Germany build on social security traditions rooted in Bismarck's logic of contribution-based insurance. However, **Germany relied more on corporatist negotiation mechanisms** early on, in which employer and employee representatives jointly negotiate contributions and benefits, reflecting the strength of labour unions. **Japan**, on the other hand, **centralized its social security system** more strongly and **shifted regulation to state actors**, the Ministry of Health, Labour and Welfare and the Ministry of Finance, flanked by the guidance and influence of the conservative political parties that governed Japan in the postwar decades, steering a consensus reflecting the interests of economic and social groups.

While we see Japan learning from Germany and facing similar challenges, there remain **differences in insurance coverage, level of benefits, financing by contributions and national budgets, management of assets** and with regard to corporate and private insurance in their social security systems. In recent years, **fairness and benefit adequacy** issues have come to the fore in Japan, as not all social groups — e.g. those in precarious employment, women, and the self-employed — benefit equally from existing programs. The wealth gap between the generation of baby boomers who benefitted from Japan's postwar period of high growth and lifelong employment and these social groups is becoming more pronounced.

With the large majority held by the LDP in the Lower House, Japan's social security reforms may enter a new phase, shaped by a prime minister supportive of structural review and the LDP's reformist supporter (Ishin). The increased visibility of demographic and fiscal limits will necessitate this discussion. Technocratic continuity and political impetus for change may show new paths forward, but Japan's institutional path dependencies remain. Many reforms will still occur at the margins, via fee schedules, premium adjustments, and administrative redesign, rather than through wholesale restructuring. The coming years will show whether Japan can generate political consensus for more ambitious reforms, or whether its welfare state will continue its characteristic pattern of stability through incremental adaptation.

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