Changes in the Business Environment and the Treatment of Aging Workers
Delayed retirement and wage reductions of older employees in Japanese local banks

Uichi Asao

The aging of Japanese society has progressed rapidly since the latter half of the 1970s. The ratio of persons aged 65 or over has risen from 5.3% in 1955, 6.3% in 1965, 7.9% in 1975, 10.3% in 1985 to 14.6% in 1995. Since the 1980s, many of Japan’s major companies have responded to the greying of society by delaying retirement from age 55 to 60 and simultaneously introducing a variety of measures, including a management age limit plan and a system of early retirement for employees; deployment of employees to subsidiary and related companies; capping and in some cases decreasing the wages of older workers (Figure 1).

This paper will enumerate and analyse the state of affairs and points of concern in the banking industry, in which the problems of delayed retirement and the reduction in the wages of older workers are most acute. City banks will be excluded from consideration because there is no data available. The focus of the paper will therefore be on local banks.

1. Summary of the Problem

Figure 1. Pre-retirement Wage Curves of older Workers

Source: Rosei Jibo No. 2929, 31 March, 1989
Note: Approximately 1,900 companies listed on the Tokyo Stock Exchange, and approximately 700 important unlisted companies with over 500,000,000 yen in capital and over 500 employees were surveyed between July and August 1988 (293 companies responded).
1-1 Delaying retirement to age 60 and the reduction of older workers' wages.

The standard retirement age in local banks was 55 until the introduction of retirement at age 60 in the 1980s. Retirement ages in different banks before 1980 were as follows: 55 years in 50 banks, 57 years in 3 banks, 58 years in 7 banks and 60 years in 3 banks (This data is based on a survey of 63 banks conducted in 1997 by the National Federation of Local Bank Employee's Unions: Chiginren).

In the latter half of the 1980s, with the exception of a few banks, the "seniority job" system ("sennin-shoku") was widely implemented with the introduction of the system of retirement at age 60. 61 Banks have implemented the "seniority job" system:

1. Employees aged 55 and over in 52 banks were transferred to "seniority jobs" where their position is secure but they are responsible only for their own duties (This figure includes M Bank where the retirement age was 60 before 1980).
2. Transfer of employees aged 57 and over to "seniority jobs" in 3 banks.
3. Transfer of employees aged 58 and over to "seniority jobs" in 6 banks.

But in 2 banks the retirement age was 60 before the late 1980s and the "seniority job" system was not introduced.

The wages of aged employees who were transferred to the "seniority job" were heavily reduced. A comparison of the wages of 54 and 55-year-old ("seniority job") employees from 34 local banks revealed that their regular wages fell to 53.6% of the previous figure and their annual salary dropped to 44.1% (Table 1).

Table 1. Comparison of Wages of 54 and 55 years old (local banks, 1996)

<table>
<thead>
<tr>
<th></th>
<th>54 years (yen): A</th>
<th>55 years (yen): B</th>
<th>Ratio: B/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed Wage</td>
<td>723,299</td>
<td>387,419</td>
<td>53.6%</td>
</tr>
<tr>
<td>Annual Salary</td>
<td>14,099,164</td>
<td>6,212,374</td>
<td>44.1%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>54 years (yen): A</th>
<th>55 years (yen): B</th>
<th>Ratio: B/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed Wage</td>
<td>730,000</td>
<td>356,100</td>
<td>48.8%</td>
</tr>
<tr>
<td>Annual Salary</td>
<td>13,293,400</td>
<td>5,743,200</td>
<td>43.2%</td>
</tr>
</tbody>
</table>

Source: A survey conducted by the National Federation of Local Bank Employee's Unions (Chiginren)

Note: 1. Wage levels are high because of those of Branch Manager level employees
2. Wages of high school or university graduate employees with standard promotion.
3. Annual Salary=(monthly fixed wage)×12+special payments (bonus).
1-2 M Bank Case Study

In M Bank, although the retirement age had been 60 since the early 1950s, the "seniority job" system was introduced for employees aged 55 and over in the 1980s. The summary of the case study is as follows:

(1) In October, 1976, S Bank and H Bank merged to form M Bank with capital stock of 21.1 billion yen, funds of 1.4 trillion yen, 1,819 employees, 106 domestic branches, 1 overseas subsidiary. It is a mid-level local bank.

(2) M Bank has maintained a system of retirement at age 60 since it was founded in 1976, a system which was adopted from the practice established by H Bank in March 1951.

(3) Following the introduction of the "seniority job" system, reductions of older employees' wages were carried out in two stages.

The first wage reduction: Bank management introduced the "seniority job" system in 1986 and reassigned employees who were 55 years old and over to this job classification. Under this wage system, "seniority job" employees were classified differently than regular employees. Employees' wages were reduced to about 80% of that of 54-year-old employees. This showed a change in working conditions.

The second wage reduction: A new "seniority job" system was introduced in 1988, and the annual income of employees aged 55 and over was reduced to 50 or 60% of its former level. This also showed another change in working conditions.

On the introduction of the aforementioned "seniority job" system, M Bank's management reached an agreement with the majority labor union (representing 74.8% of its employees [March, 1987]), but it did not reach an agreement with the minority labor union (representing 1% of its employees).

Details of the acceptance of the "seniority job" system by the majority labor union are as follows: Management's initial proposal regarding introduction of the "seniority job" system was that the wages of employees 55 and over would be drastically reduced (to about 40% of that of 54-year-old employees). The majority union acknowledged the severe economic circumstances and the difficulties posed by the problem of the aging population, but opposed the proposal on the grounds that it was excessively disadvantageous to employees. In response, management adjusted their wage reduction proposal, and both parties reached their first agreement on wage reduction. However, in the wage increase negotiations which ensued, management indicated that wage increases would be contingent upon the successful implementation of the new "seniority job" system and the major wage reductions for older workers which it encompassed. The majority labor union agreed with this management's proposal because of assurances of a wage increase.

On the other hand, the six employees affiliated with the minority labor union filed a suit with the District Court, the trial from which began in December 1988, claiming that the assignment of them to a "seniority job" was invalid and that they should receive the same wages as before under the conditions stated in their existing employment agreement.
In 1993, the District Court ruled that it had been necessary for the bank to re-evaluate its personnel practices. However, it found that part of the second wage reduction was excessively disadvantageous to the employees and thus denied its justification (in effect, upholding part of the plaintiff's claim). Following the decision, both the employer and the six employees appealed to the High Court (second trial).

In 1996, the High Court ruled that disadvantages of the "seniority job" system to employees were justifiable and acknowledged the legality of the system (almost completely upholding the defendant's position). Following the decision, the employees made a final appeal to the Supreme Court (final trial) which is still pending.

There has been a consistent clash of views between the employer and employees in the above case. The following is an outline of the employer's position:

(1) At the time of its introduction of the "seniority job" system, M Bank had weak profits due to its "high cost, high yield" performance characteristics and it was a member of a group that had the highest labor costs of any local bank in the country. Due to the increasingly severe competitive conditions existing at the end of the 1970s, caused by the liberalisation and globalization of the banking industry, it was necessary for the bank to strengthen its management's position by reducing labor costs which were largely responsible for the high costs. At the same time, in order to improve the morale of young and mid-level workers, it was necessary to rectify the disproportionately large distribution of wages to older employees.

(2) The major responsibilities of employees who fall under the "seniority job" system when they turn 55 are fixed and of an uncomplicated nature. They are responsible only for their own duties which require no supervision of subordinates. Accordingly, this is not only a wage reduction, because it is commensurate with the change in the employee's duties and therefore represents an appropriate wage level.

(3) Although the introduction of the "seniority job" system has caused a halving of the wages of employees aged 55 and over in M Bank, this annual salary is approximately 1 million yen higher than employees of the same age working in the three local banks operating in the same region.

(4) The introduction of the "seniority job" system was made with adequate consultation and agreement with the members of the labor union representing over 70% of bank employees. Nor did the employer unilaterally alter employee working conditions.

The following is an outline of the position of the six employees of the minority labor union:

(1) At the time of the "seniority job" system's introduction, M Bank was not in a deficit situation. It was steadily making profits and accumulating reserves and as such there was no "pressing requirement" to implement the "seniority job" system. M Bank's implementation of the "seniority job" system was a tactic to make use of financial liberalisation and globalization as a pretext for strengthening the bank's management and to further increase profits. Furthermore, examination of the operation of the "seniority job" system reveals that even after reaching 55 years of age, 16.9% of the bank's employees had not been assigned to a "seniority job". In addition to this, the fact that as many as 19% of management positions had been eliminated contradicts the bank's
stated goal of increasing the morale of young and mid-level workers by rectifying the lopsided wage distribution system, which favoured older workers.

(2) Many 55-year-old employees who were transferred to “seniority jobs” actually continued doing the same work, except for the fact that they had been excluded from management tasks. Furthermore, the professional capabilities of 55-year-old workers cannot be said to have declined greatly upon attaining that age. On the contrary, the trust and contact network established over many years continues to grow and thus, their abilities can also be said to still be increasing. Accordingly, the 50% wage reduction which accompanied the introduction of the “seniority job” system infringes on the principle of “equal remuneration for work of equal value” laid down in the articles of the UN International Covenant on Economic, Social and Cultural Rights and ILO Recommendation No. 162.

(3) A comparison of the difference in wage levels between workers in different companies should not be made at a single point in time, but rather it should be made over a lifetime of employment. Even if M Bank’s wage level for workers aged 55 and over is higher than other banks, the annual salary paid at 54 years old is between 500,000 and 2,000,000 yen less than other banks.

(4) In Japan, unions have equal rights in relation to employers regardless of the respective numbers of employees they represent. Agreements made by a majority union cannot therefore be unconditionally imposed upon the members of smaller unions. Furthermore, “Assistants to the Director” employees (a job classification dominated by employees 40-to-42 years of age, called “chosa-yaku”) must leave the union. Therefore, the majority of workers included in the “seniority job” system are non-union members and their opinions are not necessarily reflected by that of the dominant union. Thus, the sacrifices of the “seniority job” system were forced upon the bank’s older employees by the members of the majority labor union, the average age of whose members is less than 42.

2. The Nature and Background of the Issue

2-1 The Nature of the Issue

The M Bank Case is a unique example of a bank which already had a policy of retirement at age 60, but which responded to stagnant economic growth, financial liberalisation, globalization and the aging of the workforce, by drastically reducing the wages of workers aged 55 and over. The bank introduced the “seniority job” system in an effort to strengthen management’s position within the company. The thinking which led to the introduction of this system arose from management’s philosophy that commercial competition with other banks should be reflected in the bank’s working conditions. That is, M Bank’s decision to introduce the “seniority job” system reflected its desire to mirror the working conditions existing in most other banks by postponement of retirement to age 60 and reducing the wages of workers aged 55 and over. Therefore, the M Bank Case poses the question of whether or not it has been appropriate for the majority of banks to take this kind of action.
2-2 Background

In the background of the above issue are two situations in which many Japanese large companies have found themselves. First, company managers have strengthened themselves by introducing new corporate strategies. These have been designed to cope with the national economy, stagnant since the latter half of the 1970s, deregulation and globalization, and as a response to the challenge of intensifying market competition.

The banking industry, especially, has been faced with three major economic problems:

1. Low economic growth, which has resulted in an intensification of competition among financial institutions to secure borrowers, with many banks reducing interest rates. The decreased profitability in the banking industry has been caused by this reduction.

2. Financial liberalisation, which includes liberalisation of interest rates and the liberalisation of both domestic and international transactions of the stock and banking industry, and also intensified competition in the banking industry.

3. Globalization of Japanese banking has brought about a rise in equity capital ratio (equity capital divided by gross assets) to the international standard (8%). This has made it necessary for many banks to increase equity capital in order to increase loans.

Second, there are three problems arising from the aging of society:

1. An important social consideration exists for the employment of older persons to be maintained by postponing retirement. Since its adoption of the recommendation concerning older workers (ILO Recommendation No.162) in 1980, Japan also agreed to a policy of standardising by 1985 the system of retirement at age 60.

2. The problem of decreased motivation of mid-level employees due to the lack of management positions must be addressed.

3. There is increased burden of wage costs associated with the seniority-based wage system in large companies.

3. Points at Issue—Does the large-scale reduction of wages to finance extended retirement really amount to extended retirement?

As indicated by Figure 1, approximately 40% (39.1%) of major companies have introduced a system of wage reduction prior to retirement. These do not constitute the majority of large companies. A comparison of wage levels (monthly fixed wage) in major industries of employees 55 years of age with those 60 years of age reveals that the biggest fall in wages occurs in the banking industry (59.4% of wages at age 55). Furthermore, the wages of employees 60 years of age in the banking industry is the lowest of all industries (Table 2).

It is only to be expected that eyesight and physical strength will decline with advancing age, but knowledge, judgement and negotiating skills cannot be said to decline. There are large differences in
the capabilities of individuals. Furthermore, these are the skills most sought after in white-collar professions, such as banking. It is inconceivable that it is only employees in the banking industry who would suffer a great diminishment of their skills due to aging. Their living costs do not fall by fifty percent from the early to the latter half of their fifties. Thus, the major reduction in wages expressed in Table 1 is both baseless and irrational.

A large-scale reduction in wages is required in exchange for an extension of retirement in many banks. Do the majority of older workers continue working for the same bank when faced with this reduction? At present there is no data that directly addresses this question, but this reduction in wages is largest in the banking industry. Therefore, it is possible that this wage cut and the system of early retirement and of deployment to subsidiary and related companies may be a major disincentive for older workers to continue working in this industry. It also appears that the percentage of workers who continue as working into their late fifties is lower in the banking industry than in other industries. If such is the case, it may be said that this postponement of the retirement age does not represent a true extension of a worker’s career.

*This paper is based on my presentation at the 4th Japanese-German joint seminar on industrial systems, labour relations and labour policies in the time of globalization, seminar which was held at Universität Bremen 22-23 September in 1997.

Table 2. Comparison of Monthly Fixed Wages of 55 and 60 years old
(male university graduates, clerical staff and technical workers, 1996)

<table>
<thead>
<tr>
<th>Industry</th>
<th>55 years (yen): A</th>
<th>60 years (yen): B</th>
<th>Ratio B / A</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil and Mining</td>
<td>747,500</td>
<td>575,600</td>
<td>77.0%</td>
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<tr>
<td>Manufacturing</td>
<td>659,000</td>
<td>645,400</td>
<td>97.9</td>
</tr>
<tr>
<td>Construction</td>
<td>734,900</td>
<td>716,500</td>
<td>97.5</td>
</tr>
<tr>
<td>Banking</td>
<td>652,700</td>
<td>387,500</td>
<td>59.4</td>
</tr>
<tr>
<td>Life Insurance</td>
<td>733,300</td>
<td>712,600</td>
<td>97.2</td>
</tr>
<tr>
<td>Private Rail and Buses</td>
<td>837,400</td>
<td>815,800</td>
<td>97.4</td>
</tr>
<tr>
<td>Shipping and Storage</td>
<td>634,200</td>
<td>449,300</td>
<td>70.8</td>
</tr>
<tr>
<td>Department Stores and Supermarkets</td>
<td>710,800</td>
<td>690,400</td>
<td>97.1</td>
</tr>
<tr>
<td>Trading</td>
<td>775,100</td>
<td>575,000</td>
<td>74.2</td>
</tr>
<tr>
<td>Newspapers and Broadcasting</td>
<td>574,000</td>
<td>540,500</td>
<td>94.2</td>
</tr>
<tr>
<td>Other</td>
<td>745,600</td>
<td>553,500</td>
<td>74.2</td>
</tr>
<tr>
<td>Industries Average</td>
<td>683,600</td>
<td>643,500</td>
<td>94.1</td>
</tr>
</tbody>
</table>

Source: Central Labour Relations Commission, General Survey of Wages and Conditions (Chinginjijyoto Sogo Chosa), 1996
Note: Wages of university graduate employees with standard promotion were totaled together.
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