

PERMANENT DISABILITY SOCIAL INSURANCE PROGRAMS IN JAPAN

by David Rajnes*

This article examines Japan's permanent disability social insurance programs. Because there is limited information available about these programs in the literature outside Japan, this analysis helps to further international disability research. Primary public pension systems and their corresponding programs for permanently disabled workers and their families are described, including trends in the number of beneficiaries and benefit expenditures. Importantly, the article analyzes the determination and appeals processes in Japan for claiming permanent social insurance disability pensions.

The study also references the Social Security Disability Insurance program operating in the United States and offers comparisons with the system in Japan, which provides insights about operational procedures to researchers and policymakers in both countries. Permanent disability programs in Japan and the United States share similar characteristics, including aspects of their benefit determination and appeals procedures. However, these country program experiences diverge markedly in several areas, making the comparison worthwhile from a policy perspective.

Introduction

Social insurance *permanent disability* programs cover over 70 million workers and their dependents from loss of income that is due to accident or illness. These contributory programs serve the permanently disabled population in Japan. Although similar in some respects to the U.S. Social Security Disability Insurance (DI) program, public pension provisions covering the permanently disabled population in Japan and the United States differ significantly in many ways, including eligibility rules, benefit calculation, claims and appeals procedures, and access to short-term disability benefits. These differences span two disability insurance systems that share a common social insurance design. Notwithstanding the common design, data analyzed in this article show that these systems yield quite different outcomes relative to reciprocity, claims, appeals, and benefit expenditures.

The primary objective of this study is to examine the experience of Japan's permanent disability programs. There is very little information available about these programs in the disability literature outside Japan, so this research serves to further international

disability research. From a U.S. policy perspective, some commentators have noted that much can be learned from cross-national analyses of disability systems in other developed countries (Social Security Advisory Board 1997; U.S. General Accounting Office 2001). Although the focus resides primarily with permanent disability programs in Japan, the article refers to the disability system operating in the United States with the expectation that comparisons with the Japanese system can provide insights about operational procedures to researchers and policymakers in both countries. Such differences cannot be fully understood without reference to sociopolitical factors—which are

Selected Abbreviations

DI	Disability Insurance
EPI	Employees' Pension Insurance
GDP	gross domestic product
JPS	Japan Pension Service
MHLW	Japan Ministry of Health, Labor, and Welfare

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Selected Abbreviations—*Continued*

NP	National Pension
OECD	Organisation for Economic Co-operation and Development
SGA	substantial gainful activity
SIA	Social Insurance Agency
SSA	U.S. Social Security Administration
SSI	Supplemental Security Income

beyond the scope of this study. However, evidence in this article indicates that certain factors may help to explain some distinctions between disability systems in the United States and Japan.

This article:

- Describes the two primary public pension systems in Japan and their corresponding programs serving permanently disabled workers and their families;
- Outlines trends in the number of Japanese disability program beneficiaries and benefit expenditures;
- Examines the determination and appeals processes in Japan for claiming permanent social insurance disability pensions; and
- Compares permanent disability pension procedures in Japan with the DI program under Social Security in the United States in order to highlight potential lessons for U.S. policy.

Pension Provision under Social Insurance in Japan

Pension benefits under social insurance are provided by a two-tier system in Japan. Any resident in Japan who is aged 20–59, including non-Japanese nationals, is required to enroll in the National Pension (NP) program, which provides flat-rate basic pension benefits and collects flat-rate contributions from the self-employed and nonworking spouses and students. In addition to NP, employees in Japan are further covered by occupational programs—either the Employees’ Pension Insurance (EPI) program for general employees in the private sector or the mutual aid associations for employees in the public sector. These occupational programs provide earnings-related benefits and collect earnings-related contributions.

Public Pension System

A brief historical overview of public pension (old-age, disability, and survivor) programs in Japan is

presented in this section (see Clark 1991). Because disability pension amounts are linked to the old-age benefit calculation for each program, it is critical to examine old-age pension programs in Japan before discussing details about permanent disability pensions.

Historical background. Pension (including disability) coverage under Japan’s social insurance system began in 1942 with the implementation of the EPI program for workers in firms with 10 or more employees, which was soon after extended to firms with 5 or more employees in 1944. Initially, beneficiaries received only earnings-related benefits. A 1954 reform of the public pension system transformed the EPI program design into one consisting of a flat-rate portion and another consisting of an earnings-related portion. Coverage was broadened in 1961 with the introduction of the NP program, designed for self-employed workers, farmers, and others not considered employees (for example, unemployed, nonworking spouses, and so forth). At that time, the public pension system included only the EPI program for private-sector workers, and several smaller mutual aid programs operated for public-sector employees and specific occupations (such as private school employees). The original NP program provided only flat-rate benefits financed by flat-rate contributions. The level of those benefits was determined identically to the flat-rate portion of the EPI program, although the NP and EPI programs were operated separately.

As the economy expanded in the 1960s, the importance of agriculture declined in Japan. Farmers, who initially comprised a substantial portion of the NP-covered population, declined in number, which negatively impacted the long-term solvency of the NP program. By the early 1980s, it was decided to extend coverage of the NP program to the entire population, including employees, and to transform EPI into an earnings-related program by eliminating the flat-rate portion. These modifications were introduced in the 1985 social security reform law, which represents historically the most fundamental change to the public pension system affecting coverage and benefits. In the 1985 reform, a basic flat-rate pension was established, and all public pension systems were financially and statutorily integrated into this first tier (Kabe 2007). Since that time, NP has covered nearly all residents with flat-rate pension (including disability) benefits, and employees have been covered under *both* the flat-rate NP program as well as the earnings-related EPI program, or another occupational (mutual aid) program for earnings-related benefits. The 1985

reform also allowed young adult dependents to qualify for disability benefits at age 20—even though they had never contributed to the system—if they had been disabled before age 20 (the age at which contributions to NP begin).¹

Current coverage. Today, the multitiered public pension system provides virtually universal coverage to Japanese residents under old-age, disability, and survivor social insurance programs. Participation and benefits are based on the following categories:

- Category 1 includes persons who are self-employed, farmers, and students who pay a fixed contribution each month. These individuals can be exempted from paying contributions based on their status, but will receive reduced benefits as a result;
- Category 2 includes employees of the private and public sectors. Contributions are earnings-related and shared evenly with the employer; and
- Category 3 includes spouses of insured category 2 participants who do not directly contribute to the system; their benefits are financed through spousal contributions.

The first category covers persons contributing only to the NP program, and the second and third categories apply to EPI participants and their spouses, respectively. The Japanese government previously financed one-third of the NP program—a share that rose to one-half in April 2009—while EPI program financing still relies totally on contributions.

National Pension program. NP, a partially funded program, covers full-time employees, but also the self-employed, farmers, and others aged 20–60 who are not full-time employees (Rajnes 2007; SSA 2009b). These individuals are required to make a flat-rate monthly contribution, which was 14,690 yen (US\$139) in 2008.² Two categories of individuals are exempt from paying NP contributions: (1) individuals who qualify for social assistance and (2) persons with disabilities who already receive disability benefits (Honeycutt, Terashima, and Kohyama 2005). NP provides a pension benefit proportional to the number of years of contributions. The full benefit, available after 40 years of contributions, amounted to 66,008 yen (US\$625) each month, or 792,100 yen (US\$7,502) per year in 2008. Benefits are adjusted annually according to changes in the cost of living. The eligible age for full NP benefits is 65, with a minimum of 25 years of contributions. All NP administrative costs and, as mentioned earlier, one-half of NP benefits are subsidized by the government.

Employees' Pension Insurance program. For full-time, private-sector employees in Japan, there is a two-tiered EPI program. EPI includes a flat-rate first tier, with contribution and benefit features corresponding to the NP program, *and* an earnings-related second tier. The overall EPI contribution rate (combined employer and employee) is 15.35 percent of employee pretax earnings (as of January 2009). Since 2004, this contribution rate has been rising in increments of 0.354 percent each year and will reach 18.30 percent in 2017. Contributions are levied and benefits are calculated based on monthly earnings ranging in 2008 from a minimum of 98,000 yen (US\$928) to a maximum of 620,000 yen (US\$5,872).

The EPI old-age pension is based on earnings and length of time contributing. It is calculated on the basis of the person's average monthly wage over the full career, multiplied by a coefficient determined by the insured person's date of birth, times the number of months of coverage. The average replacement rate for a retired male employee with a contribution record of 40 years (taking into account the flat-rate first tier and the earnings-related second tier and assuming average earnings during that time) is approximately 43 percent.³ The average EPI household replacement rate for a retired male employee with the same earnings profile, but with a nonworking spouse, is approximately 59 percent.⁴ As with the NP program, EPI benefits are adjusted annually according to changes in the cost of living. All EPI administrative costs are covered by the government. The current eligible age to receive full EPI benefits will rise gradually from age 60 to age 65 in the coming decades.⁵

The NP and EPI programs are administered nationally by the Japan Pension Service (JPS) under the general supervision of the Ministry of Health, Labor, and Welfare's (MHLW) Pension Bureau. Japan's 47 regional Social Insurance Bureaus and 265 Social Insurance Offices and their supplemental 71 Pension Consultation Centers administer contributions and benefits for both programs at the local level (SSA 2009b).⁶

Pensions for the Permanently Disabled Population

Two social insurance programs in Japan provide long-term disability benefits to the self-employed and nonworkers (for example, spouses and students) under the NP program in which everyone is enrolled and to full-time employees under the EPI programs.⁷ Other long-term social insurance disability programs in

Japan cover teachers, civil servants, and the military. Short-term disability benefits are also provided to employees through the Employee Health Insurance system for workers in companies with five or more employees *and* through unemployment benefits from the Labor Insurance program for individuals who become ill or sustain a nonwork-related injury leaving them unable to work (Honeycutt, Terashima, and Kohyama 2005).

Eligibility

To qualify for a disability pension under the NP or EPI programs, individuals must have contributed to either program for at least two-thirds of the period between age 20 and the onset of a disability.⁸ They also must be covered by the respective program from the day before the medical examination that documents the sickness or injury causing the disability. The provisions of NP and EPI laws provide impairment tables that indicate specific physical and mental conditions for three groups of disabled individuals, ranging from group I (the most severe disabilities) to group III (SSA 2009b). There are 11 conditions listed for group I, 17 for group II, and 14 for group III, as shown in Box 1, according to the following categories (Honeycutt, Terashima, and Kohyama 2005):

- Group I includes persons with a disability that prevents them from conducting their daily activities and requires constant attendance;
- Group II includes persons who have or require significant restrictions in daily life that severely impair their ability to live independently; and
- Group III includes persons who have some restrictions in daily or social life that impair their ability to work.

Permanent disability programs in Japan, versus those in other developed countries such as the United States, appear unique in that the incapacity for work or reduced earnings is largely absent from eligibility criteria, which stress long-term physical, intellectual, or mental impairment (Honeycutt, Terashima, and Kohyama 2005).⁹ Thus, for covered individuals to receive permanent disability benefits in Japan, they must only establish that they have a long-term impairment and limitations in daily living, not a limitation in their ability to work. Besides these severity and impairment criteria, another aspect is the required length of contribution period in Japan, which is at least two-thirds of the period between age 20 and the onset of a disability. Somewhat different criteria apply in the

United States' DI program, where the corresponding required contributory period to satisfy eligibility is potentially shorter: one-half of the quarters over the prior 10 years, as detailed next.

Eligibility criteria in Japan also differ in other ways from the DI program under the U.S. Social Security system. Under the U.S. system, "disability" is defined as an inability to engage in any "substantial gainful activity" (SGA) that is the result of a physical or mental condition (Table 1).¹⁰ Although the severity of impairment is considered in the United States—and there is a duration requirement that the impairment be expected to last 12 months or longer or result in death—the DI program benefit, in addition, is limited to those whose disability is sufficient to preclude SGA (those working above that level are not eligible). As a prerequisite, U.S. applicants must also have worked for a certain period of time, or have a specified amount of covered earnings in a year as measured in quarters of coverage, depending on age. At least 1 quarter of coverage for each elapsed year from age 22 to the age of disability onset (a minimum of 6 credited periods up to a maximum of 40 quarters) is required for fully insured status. In addition, there is a recency of work test in the United States; the applicants must have 20 quarters of coverage in the last 40 quarters or, if aged 32 or younger, one-half of the quarters must have elapsed since attaining age 22.

Benefits

The degree of disability impairment recorded is important in Japan because NP and EPI eligibility and benefit amounts are determined accordingly with respect to the three major groupings detailed earlier. By comparison, disability benefits in the DI program under the U.S. Social Security system are based on the insured individual's average covered earnings. The Japanese approach is indicated in Box 2; disability beneficiaries covered by the NP program receive benefits corresponding to group I or group II, while employees covered under the EPI program receive the basic flat-rate pension benefit from the NP program *in addition to* an earnings-related disability benefit from the EPI program. If an employee is considered to have a degree of impairment corresponding to group III, he or she does not receive any flat-rate benefit from the NP program, but only the disability pension from the EPI program.

Under the NP program, group I individuals receive 125 percent of the maximum old-age NP benefit per year, which was 990,100 yen in 2008 (US\$9,378).

Box 1.**Specific physical and mental conditions for disabled individuals in Japan, by disability group****Group I: Persons with a disability that prevents them from conducting daily activities and requires constant attendance**

- Total visual acuity in both eyes is no more than 0.04
- Hearing level in both ears is 100 decibels or higher
- Significant functional impairment of both upper limbs
- Loss of all fingers on both upper limbs
- Significant functional impairment of all fingers on both upper limbs
- Significant functional impairment of both lower limbs
- Loss of both lower limbs from an ankle joint or above
- Difficulty in maintaining a seated position or standing up because of functional impairment of the trunk
- Inability to perform everyday personal tasks because of the functional impairment or conditions with long-time bed rest, which is considered to be equivalent to or more severe than the conditions cited above
- Mental disabilities equivalent to or more severe than the conditions cited above
- Two or more functional impairments, physical conditions, or mental disabilities, which are considered to be equivalent to or more severe than the conditions cited above

Group II: Persons who have/require significant restrictions in daily life that severely impair their ability to live independently

- The total visual acuity in both eyes is from 0.05 to 0.8
- The hearing level in both ears is 90 decibels or higher
- Significant functional impairment in equilibrium
- Loss of chewing function
- Significant impairment of vocal or speech functions
- Loss of the thumbs and forefingers or middle fingers of both upper limbs
- Significant functional impairment of thumbs and forefingers or middle fingers of both upper limbs
- Significant functional impairment of an upper limb
- Loss of all fingers of an upper limb
- Significant functional impairment of all fingers of an upper limb
- Loss of all toes of both lower limbs
- Significant functional impairment of a lower limb
- Loss of a lower limb from an ankle joint or above
- Difficulty in walking because of functional impairment of the trunk
- Daily activities are significantly limited because of the functional impairment or conditions requiring long-time bed rest, which is considered to be equivalent to or more severe than the conditions cited above
- Mental disabilities equivalent to or more severe than the conditions cited above
- Two or more functional impairments, physical conditions, or mental disabilities, which are considered to be equivalent to or more severe than the conditions cited above

Group III: Persons who have some restrictions in daily or social life that impair their ability to work

- The total visual acuity in both eyes is no more than 0.1
- Inability to understand words spoken at a distance of 40 centimeters away or more
- Significant functional impairment in chewing or speaking
- Significant functional impairment of backbone
- Functional loss of the two important joints in an upper limb
- Functional loss of the two important joints in a lower limb
- Significant motor functional impairment caused by a false joint in long bone(s)
- Loss of a thumb and a forefinger of an upper limb, or three fingers including a thumb or a forefinger
- Functional loss of four fingers including a thumb and a forefinger in an upper limb
- Loss of one lower limb at the isfranc joint or above
- Functional loss of all toes of both lower limbs
- Significant limitation should be given to work, or work is significantly limited because of the physical impairment
- Significant limitation should be given to work, or work is significantly limited because of the mental condition or nervous system impairment
- Limitation should be given to work, or work is limited because of the physical function, mental condition, or nervous system impairment that is caused by incurable injury or illness, which is specified by the Minister of Health, Labor, and Welfare

SOURCE: Adapted by the author from Appendix Table B of Honeycutt, Terashima, and Kohyama (2005).

Table 1.
Selected characteristics of permanent disability programs: Comparison of Systems in Japan and the United States, 2005

Characteristic	Japan	United States
Definition of disability to qualify	Daily life is substantially limited over the long-term because of physical, intellectual, or mental disability. Work incapacity or reduced earnings is not a requirement for eligibility.	Inability to engage in substantial gainful activity (SGA) because of medically determinable impairment expected to last 12 months or longer or result in death
Eligibility	Eligibility is based on contributions, although low earners may be exempt from contributing, but receive reduced benefits.	Insured status is based on length and recency of employment.
Work criterion	Generally no limitation in ability to work required; EPI group III is defined as persons with restrictions on ability to work.	Recency of work test
Age criterion	NP—aged 20 to 60 EPI—all ages for employees of covered firms	Up to age 66
Financing	EPI—total (employer/employee) tax of 15.35 percent of earnings, scheduled to rise to 18.3 percent by 2017 (includes a proportional amount for NP benefits); the maximum monthly earnings for contribution and benefit purposes in 2008 was 620,000 yen (US\$5,872) NP—monthly flat rate of 14,690 yen (US\$139), with the government financing one-half of NP since the end of fiscal year 2009	Total (employee/employer) tax of 12.4 percent is paid on earnings: equal contributions from worker and employer (including 1.8 percent dedicated to disability). The maximum monthly earnings for contribution and benefit purposes in 2008 was US\$8,500.
Benefit amounts	Pensions are calculated as a percentage of the old-age pension for EPI and NP and rise with severity of impairment, starting at 100 percent of the old-age pension.	Pension is based on insured's average covered earnings since 1950 and is indexed for past wage inflation, up to onset of disability, excluding up to 5 years of lowest earnings.
Cost-of-living adjustment	Yes	Yes
Treatment of work while disabled	Work has no impact on benefits except among those disabled before age 20 in the NP program.	Program has incentives to encourage work. Successful return to SGA will result in benefit suspension after a trial work period and termination after an extended period of eligibility.
Dependent coverage	Automatically eligible under EPI, but not under NP	Yes—automatically eligible based on worker's coverage

SOURCES: *Social Security Programs Throughout the World, Asia and the Pacific: 2008* (SSA 2009b) and the International Social Security Association (2009).

NOTE: Permanent disability programs under the public pension system in Japan are the National Pension (NP) and Employees' Pension Insurance (EPI); the corresponding permanent disability program in the United States is the Disability Insurance (DI) program under Social Security.

Box 2.**Permanent disability benefit programs under Japan's social insurance system, 2008****National Pension (NP)****Eligibility requirements**

NP pays benefits to two classes of disability beneficiaries and a dependent's supplement

Group I	Total disability requiring constant attendance
Group II	Degree of disability severely restricting the ability to live independently
Dependent's supplement	May be paid for children up to the end of the fiscal year in which they reach age 18 (20, if disabled)

Insured must satisfy qualifying conditions for the NP old-age pension at the onset of disability or have paid credited contributions during two-thirds of the period between age 20 and the onset of disability ^a

Disability benefit (paid every 2 months and annually adjusted to cost of living)

Group I	125 percent of NP old-age pension plus additional benefits for dependent(s) 990,100 yen (US\$9,378) each year
Group II	100 percent of NP old-age pension plus additional benefits for dependent(s) 792,100 yen (US\$7,502) each year
Dependent supplement	227,900 yen (US\$2,159) each year for each of the first two children and 75,900 yen (US\$719) for each subsequent child paid up to the end of the fiscal year in which the child(ren) reach age 18 (20, if disabled)

Employees' Pension Insurance (EPI)**Eligibility requirements**

EPI pays benefits to three classes of disability beneficiaries, a dependent's supplement, and a disability grant

Group I	Total disability requiring constant attendance
Group II	Degree of disability that severely restricts a person's ability to live independently
Group III	Degree of disability that severely restricts a person's ability to work
Dependent supplements for children (as in NP) as well as dependent spouses up to age 65	Insured must satisfy qualifying conditions for the NP old-age pension at the onset of disability or have paid credited contributions during two-thirds of the period between age 20 and the onset of disability ^a
Disability grant	Degree of disability deemed less severe than group III

Disability benefit (paid every 2 months and annually adjusted to cost of living)

Group I	125 percent of EPI old-age pension plus additional benefits for dependent(s)
Group II	100 percent of EPI old-age pension plus additional benefits for dependent(s)
Group III	100 percent of EPI old-age pension
Minimum benefit	594,200 yen (US\$5,628) a year
Dependent's supplement	227,900 yen (US\$2,159) per year for a spouse; additional supplements for children as indicated above in NP
Disability grant	Lump sum equal to 200 percent of EPI old-age pension Minimum lump sum is 1,168,000 yen (US\$11,062)

SOURCES: *Social Security Programs Throughout the World: Asia and the Pacific, 2008* (SSA 2009b); and the Japan International Cooperation Agency and the Japanese Society for Rehabilitation of Persons with Disabilities (2007).

NOTES: Yen to US\$ conversion rates reflect those in mid-2008.

a. Low-income, disabled persons or those receiving public aid may be awarded credit for contribution periods. The pension amount is reduced for credited contribution periods.

Group II individuals receive 100 percent of the maximum old-age NP benefit per year, or 792,100 yen in 2008 (US\$7,502). These benefits correspond approximately to 22 percent and 17 percent of the average monthly wage in Japan, respectively, for the group I and group II benefit categories listed in Box 2.¹¹ There are additional benefits for dependent children until they reach age 18 (age 20 if disabled). Both NP and EPI benefits are adjusted annually to reflect changes in the disposable income per worker before age 65 and in the cost of living for those aged 65 or older.

The EPI program offers benefits for a wider range of disabilities (less severe impairments) than is available under the NP program, including a group III disability benefit category and various other supplements, as shown in Box 2. Individuals covered under the EPI program receive *both* the NP and the EPI disability pension if the disability category is equivalent to group I or group II. The EPI program pays group I (125 percent) and group II (100 percent) disability benefits based on the EPI earnings-related old-age pension.¹² To qualify, the claimant must meet the same minimum coverage requirements that apply to NP disability benefits. For 2006 (the most recent data available), average monthly benefits were 157,445 yen (US\$1,340) for group I beneficiaries and 121,077 yen (US\$1,030) for group II beneficiaries. Also, if an EPI disability claimant has been covered for less than 25 years (300 months), then 300 months is used in the computation to guarantee a higher benefit amount. Dependent supplements (not available to group III) include benefits for dependent children as well as benefits paid to persons having a dependent spouse younger than age 65.¹³ Unlike the EPI program, which allows disability benefits to be paid to the disabled spouse of a covered worker, the U.S. system does not extend disability coverage to a spouse unless the spouse is disabled and a widow(er) older than age 50.¹⁴

Additional allowances are available to individuals covered under the EPI program. For example, there is a group III disability benefit (100 percent of the EPI old-age pension) for individuals with a partial disability that does not entirely prevent them from working. Because these individuals cannot qualify for a group I or group II disability benefit, they are guaranteed a minimum annual benefit. Also, a one-time, lump-sum benefit can be granted when the degree of disability is less than what is described for group III.¹⁵ That allowance is twice the annual amount of the group III disability benefit.¹⁶

Treatment of Work

The treatment of earned income differs by program in Japan (Honeycutt, Terashima, and Kohyama 2005). For example, the number of hours worked or level of earnings received by EPI beneficiaries who work typically has no impact on benefits received, which has not been the case under the NP program. Since the inception of the NP program in 1961, earned income restrictions have been applied to NP beneficiaries whose disability began before they reached age 20 because the disabled person never contributed (Japan MHLW 2005).¹⁷ In such cases, NP benefits may be cut by 50 percent or even 100 percent. For persons with dependents, the earnings thresholds are higher.¹⁸

In an effort to encourage greater employment, working NP beneficiaries since April 2006 are eligible to also receive the earnings-related component of the old-age, EPI pension (Takayama 2004b). Before that time, disabled individuals who worked for employers under the EPI program were allowed to choose between an NP disability pension or the combination of the NP old-age pension plus the EPI old-age pension, the latter of which was usually smaller because of the limited time they contributed to the EPI program.

These work-related rules under EPI and the recent relaxation in rules governing working NP beneficiaries are quite different from those that apply in the United States. As noted earlier, the U.S. DI program under Social Security has an earnings test based on the concept of SGA, and individuals whose work exceeds this level are not eligible to collect benefits. The DI program does encourage beneficiaries to return to work and offers several incentives for doing so, such as a trial work period during which benefits are not affected by work, extended Medicare benefits, and so forth. Ultimately, a successful return to work at SGA level results in disability benefits being terminated.

Readers should also be aware that a second disability program is available in the United States. The Supplemental Security Income (SSI) program provides those persons with little or no work history with disability coverage. The SSI program is means-tested with very strict income and resource tests and is non-contributory. The SSI program shares some similarities with the NP program in Japan, but is different in other ways.¹⁹ On one hand, both the SSI and the NP programs pay a flat-rate benefit that is indexed to the cost of living. On the other hand, the NP program is contributory for all but those persons on social

assistance—young adults who have no work history or those persons already receiving disability benefits. The SSI program requires no contributions, but has more strict income and resource criteria than the NP program. By covering disabled adults with little or no work history, the SSI program in the United States reduces some of the difference in disability coverage between the two countries.²⁰

Individuals entitled to the permanent disability pension under either the NP or EPI programs may also be eligible to receive other nonpension benefits. There is no reduction in the benefit amount if that person receives another type of benefit, such as long-term care assistance.

Prevalence of Disability

There are approximately 6.5 million persons with disabilities in Japan, out of a population of approximately 127 million, according to national survey data. Within this affected population, three general categories of disability can be identified, as indicated in Box 3: 3.5 million physically disabled individuals; 2.6 million with mental disabilities (schizophrenia or psychotic orders); and 459 thousand with intellectual disabilities (low IQ). Among the 78 million working-age (20–64) population, there were approximately 1.35 million physically disabled individuals; 1.75 million with mental disabilities; and 350 thousand with intellectual disabilities. This means there is a self-reported disability prevalence rate of approximately 4.4 percent with respect to the working-age population. That 4.4 percent figure for Japan is relatively low when compared with the United States, where survey estimates show higher rates of self-reported disability among its 181 million working-age population—ranging from 6.3–18.4 percent depending on the

survey and how disability is defined, as indicated in Table 2 (SSA 2006).²¹

Not only is the self-reported prevalence of disability relatively low for Japan’s population, but disability program reciprocity rates for individuals who receive a disability benefit as a percentage of all persons aged 20–64 are quite low in Japan as well. Data in a recent Organisation for Economic Co-operation and Development (OECD) report indicate an unweighted mean reciprocity rate across 28 OECD countries of nearly 6 percent, which is more than twice the rate for Japan (OECD 2009). Table 2 includes a comparison of reciprocity rates for Japan and the United States in 2005. Permanently disabled beneficiaries in Japan for both the EPI and NP programs totaled 2.2 million, or about 2.8 percent of the working-age population.

In the United States, there were 6.5 million disabled workers in the DI program, representing 3.6 percent of the U.S. working-age population.²² Including other disabled Social Security beneficiaries (220 thousand disabled widow(er)s and 770 thousand disabled adult children), there were a total of 7.5 million disabled Social Security beneficiaries, or 4.2 percent of the working-age population receiving Social Security benefits that were due to a disability. Using this broader count of disability beneficiaries, rates of benefit receipt were roughly 50 percent higher in the United States than in Japan.

Trends in Permanent Disability Programs

Trends in the number of beneficiaries, expenditures, and claims for social insurance permanent disability benefits can indicate how these programs change over time. This section serves that purpose for these programs in Japan.

Box 3.

Self-reported disability in the Japanese population, by disability category, 2001

Physical disabilities: 3.5 million

- of whom 90 thousand are younger than age 18
- of whom 3.4 million are aged 18 years or older (60.2 percent are aged 65 or older)

Mental disabilities: 2.6 million with schizophrenia or psychotic orders

- of whom 142 thousand are younger than age 20
- of whom 2.4 million are aged 20 or older (27.2 percent are aged 65 or older)

Intellectual disabilities: 459 thousand individuals with low IQs

- of whom 103 thousand are younger than age 18
- of whom 342 thousand are aged 18 or older (2.8 percent are aged 65 or older)
- of whom an additional 14 thousand are of unknown age

SOURCE: Japan International Cooperation Agency and the Japanese Society for Rehabilitation of Persons with Disabilities (2007) and the Japan Cabinet Office (2005).

Table 2.**Selected demographic and expenditure characteristics of permanent disability programs: Comparison of systems in Japan and the United States, 2005**

Characteristic	Japan	United States
Working-age (20–64) population (millions)	77.9	180.5
Self-reported disability rates (as a percentage of the working-age population) ^a	4.4	^b 6.3–18.4
Number of disability beneficiaries (millions)		
NP	1.7	--
EPI	0.5	--
DI ^c	--	6.5
Disability beneficiaries (as a percentage of the working-age population)		
NP	2.2	--
EPI	0.6	--
DI	--	3.6
New disability pensions awarded		
NP	78,997	--
EPI	29,173	--
DI ^d	--	821,000 adults and 88,000 widow(er)s and adult children
Annual program costs of cash benefits		
NP and EPI combined—		
As a percentage of gross domestic product (GDP)	0.38	--
As a percentage of public pension costs	2.17	--
DI		
As a percentage of GDP	--	0.68
As a percentage of public pension costs	--	16.40

SOURCES: Population figures come from the United Nations (2009), *World Population Prospects: The 2008 Revision Population Database*; U.S. percentages of self-reported disability range from the lower rate of 6.3 percent reported by the U.S. Census Bureau's Current Population Survey, which used a definition of severe work disability, to the much higher rate of 18.4 percent reported by the Decennial Census of 2000 (SSA 2006), which counted individuals with some type of long-lasting condition. The Decennial Census included impairments involving vision or hearing, certain physical limitations, and difficulty performing certain activities because of a physical, mental, or emotional condition (U.S. Census Bureau 2003). Pension program costs for the United States are based on the *Annual Statistical Supplement to the Social Security Bulletin, 2007* (SSA 2008a). Japanese sources of self-reported disability are taken from the 2005 *Annual Report on Government Measures for Persons with Disabilities (Summary)* issued by the Japan Cabinet Office (2005).

NOTES: Permanent disability programs under the public pension system in Japan are the National Pension (NP) and Employees' Pension Insurance (EPI); the corresponding permanent disability program in the United States is the Disability Insurance (DI) program under Social Security.

-- denotes not applicable.

- Self-reporting of disability differs by age across countries; in Japan, the persons reporting disability included those aged 18 or older for those with physical and intellectual disabilities and for all ages with respect to mental disorders; in the United States, self-reported individuals included those aged 16–64.
- Variability depends on the definition of disability and the source. The definition yielding the smallest estimate of the disabled population, using the definition of severe work disability, was included in the Current Population Survey, but was absent from the Decennial Census of 2000.
- In 2005, there were 6.5 million disabled-worker beneficiaries in the DI program. In addition, the program paid benefits to 1.7 million dependents of disabled workers, 220 thousand disabled widow(er)s, and 770 thousand disabled adult children. Beneficiary data for Japan include all categories (workers, dependents, and so forth). No similar categorical breakout is available for Japan.
- Widow(er)s and disabled adult children are not paid from the DI Trust Fund, so technically, they are not included under DI expenditures. Medicare and administrative costs are not included in DI figures. Administrative costs would bring the total up to approximately US\$530 billion.

Beneficiaries and expenditures. Table 3 contains figures for permanent disability beneficiaries and expenditures (including benefits to dependents) as a percentage of gross domestic product (GDP) and as a percentage of public pension (old-age, survivors, and disability insurance) expenditures under the two major programs from 1986 through 2005—the years since Japan’s landmark public pension system reform was implemented.

These data indicate slow and steady growth for both programs in terms of permanent disability beneficiaries over the observed period. EPI beneficiaries represent roughly 21–22 percent of all disability beneficiaries throughout the entire period. Program expenditure data

relative to GDP indicate a relatively fixed share for EPI expenditures of slightly below 0.1 percent (0.07–0.09), while the percentage of GDP represented by NP expenditures actually grew from roughly 0.2 percent to nearly 0.3 percent (0.23–0.29) from 1986 through 2005. The combined share of GDP for both programs grew slightly over time, from 0.32 percent to 0.38 percent, solely because of the growth in NP expenditures. With respect to their share of overall expenditures in public pensions (old-age, survivors, and disability insurance), these programs declined from 5.75 percent in 1986 to 4.12 percent in 2005.

Disability pensions under the NP and EPI programs have represented a relatively small share of

Table 3.

Permanent disability in social insurance programs in Japan: Number of beneficiaries and percentage of benefit expenditures, by major program, 1986–2005

Fiscal year	Employees' Pension Insurance (EPI)			National Pension (NP)		
	Number of beneficiaries	Expenditures as a percentage of OASDI expenditures	Expenditures as a percentage of GDP	Number of beneficiaries	Expenditures as a percentage of OASDI expenditures	Expenditures as a percentage of GDP
1986	287,155	1.61	0.09	1,044,338	4.14	0.23
1987	298,916	1.53	0.09	1,084,815	4.05	0.23
1988	307,012	1.45	0.08	1,112,627	3.93	0.22
1989	319,587	1.42	0.08	1,144,880	3.99	0.22
1990	326,906	1.36	0.08	1,172,693	3.90	0.22
1991	335,523	1.32	0.07	1,198,620	3.84	0.21
1992	343,644	1.28	0.07	1,225,099	3.78	0.22
1993	352,645	1.23	0.08	1,252,059	3.69	0.23
1994	362,676	1.22	0.08	1,278,172	3.72	0.24
1995	372,202	1.14	0.08	1,308,998	3.54	0.25
1996	380,160	1.09	0.08	1,338,488	3.46	0.24
1997	393,135	1.07	0.08	1,369,835	3.39	0.24
1998	403,719	1.04	0.08	1,401,606	3.34	0.25
1999	414,960	1.02	0.08	1,437,480	3.31	0.27
2000	425,113	0.99	0.08	1,473,300	3.28	0.27
2001	435,653	0.97	0.08	1,507,799	3.24	0.28
2002	452,420	0.95	0.09	1,542,879	3.17	0.29
2003	463,057	0.94	0.09	1,580,171	3.18	0.29
2004	475,986	0.94	0.09	1,619,493	3.19	0.29
2005	486,728	0.93	0.09	1,655,001	3.19	0.29

SOURCES: Personal communication, via e-mail, between the author and Ministry of Health, Labor, and Welfare officials (August 27, 2008) for data on participants and beneficiaries; *International Monetary Fund (IMF) Financial Statistics Yearbook and IMF International Statistics* (various years) for gross domestic product (GDP) data; and the National Institute of Population and Social Security Research (various years) for figures on old-age, survivors, and disability insurance (OASDI) expenditures.

NOTES: Data herein reflect the end of each fiscal year. The fiscal year in Japan begins on April 1 of the previous calendar year and ends on March 31 of the year with which it is numbered.

Beneficiaries refer to the number of individuals receiving benefits under each program. Individuals covered under NP receive only those benefits, whereas those covered under EPI are eligible to receive benefits (expenditures) from both the NP and EPI programs in most cases.

overall expenditure on public pensions over time in Japan: 5.3 percent in 1990, 4.3 percent in 2000, and 4.1 percent in 2005. One possible explanation offered by Japanese actuaries for this trend is that the number of old-age beneficiaries has been increasingly rapidly—a reflection of population aging—while the total number of persons of working age in the population, which generates disability beneficiaries at a fairly constant rate, is decreasing.²³ According to Japan's MHLW, the per capita benefit of the old-age pension has increased with longer contribution periods of participating workers, reflecting the maturing of the old-age pension system. According to data in Table 2, the DI program under Social Security in the United States accounted for 0.68 percent of GDP (nearly twice the share in Japan) and 16.4 percent of public pension expenditures (roughly eight times the portion in Japan)—a percentage that has been rising in recent decades from 11.1 percent in 1990 to 15.6 percent in 2000 to 16.4 percent in 2005.

Disability claims and inflow of new beneficiaries.

In Japan, data on the number of disability claims filed or the number of disability pensions granted by type of disability are not available on a regular basis. However, a Disability Research Institute study funded by the U.S. Social Security Administration (SSA) was able to obtain 2001 data on the number of new beneficiaries by pension type and disability grouping (Honeycutt, Terashima, and Kohyama 2005). The study found that—

- Of the over 100,000 disability pensions granted, only one-quarter of individuals qualified under the EPI program (a 3:1 ratio of NP versus EPI awards).

Persons with a group III disability, who are not eligible for an NP pension, comprised the largest portion (47 percent) of all EPI pensions awarded; 14 percent of new EPI beneficiaries qualified under the group I classification. Regarding the NP program, the majority of pensions were awarded for group II disabling conditions.

- NP program beneficiary totals were split evenly between group I and group II disability classifications; relatively few individuals (14 percent) had a group I disability under the EPI program; and the majority of EPI beneficiaries fell under either a group III (47 percent) or group II (40 percent) disability.

Table 4 contains the most recent government figures on the number of new benefits granted under the NP and EPI programs for permanent disability pensions from 2000 through 2005. These data show a gradual increase overall in the number of permanent disability pensions granted under these programs during the period under study. However, although grants for these programs rose after 2000, both programs experienced a slight decline from 2004 to 2005.²⁴ In general, the share of new EPI disability recipients has remained steady at around 27 percent throughout the observed period. Of interest, is the bottom row of Table 4, which shows that the percentage of new beneficiaries has remained virtually unchanged at around 5 percent from 2000 through 2005.

Stable inflows of new permanent disability beneficiaries observed in Japan are uncommon across most disability systems in OECD countries. According to a 2009 OECD report, only 7 other countries (besides

Table 4.
Number and percent of new permanent disability pension beneficiaries in Japan granted by major program, 2000–2005

Program	2000	2001	2002	2003	2004	2005
Employees' Pension Insurance (EPI)	26,728	27,241	28,517	28,261	31,247	29,173
National Pension (NP)	72,724	73,606	74,902	78,110	80,541	78,997
Total	99,452	100,847	103,419	106,371	111,788	108,170
New pension beneficiaries (as a percentage of all permanent disability pension beneficiaries) ^a	5.24	5.19	5.18	5.21	5.33	5.05

SOURCE: Personal communication, via e-mail, between the author and Ministry of Health, Labor, and Welfare officials (July 9, 2008).

NOTES: Data herein reflect the end of the fiscal year. The fiscal year in Japan begins on April 1 of the previous calendar year and ends on March 31 of the year with which it is numbered.

Individuals covered by EPI also receive a benefit under NP in most cases.

a. Percentage calculation based on the combined total of EPI and NP permanent disability beneficiaries listed in Table 3, from 2000 through 2005.

Japan)—out of a total 28 OECD countries studied—had similarly flat profiles for the number of new disability beneficiaries as a percentage of the working-age population, and only 1 other country (Mexico) recorded a lower rate of new beneficiaries (OECD 2009). Besides the 2 percent and 1 percent recorded for Japan and Mexico, respectively, rates for the other five stable systems ranged from around 3–7 percent.²⁵ By contrast, the United States, which was classified in the OECD study as among countries with increasing disability reciprocity (take-up) rates, showed steady growth from slightly less than 4 percent in 1990 to nearly 6 percent in 2006.

Another contributing factor to the stable rate of new disability beneficiaries may lie, at least for Japan, with the low level of new applicants. According to an SSA-funded study, one of the more striking observations in Japan was the low reciprocity rate of disability pensions despite economic difficulties and high unemployment in recent years (Honeycutt, Terashima, and Kohyama 2005). In 2005, new disability pensions granted for the NP and EPI programs in Japan accounted for slightly more than 108,000, or 5.05 percent of all beneficiaries in those programs—quite different from the experience of the United States, where the disability rolls in the DI program were over 900,000, or nearly 14 percent of all beneficiaries in that program.

Honeycutt, Terashima, and Kohyama (2005) offer two reasons for the relatively low number of disability beneficiaries in Japan. First, the disability determination system in that country does not emphasize the ability to work, but instead focuses on specific functional conditions unrelated to the employment situation of the person. Such an approach may involve less discretion in the decision-making process, resulting in a lower approval rate for disability claims. Moreover, such a narrow (functional) view of disability appears to have allowed Japan to avoid experiencing what the OECD calls the “medicalisation of labour market problems,” an OECD-wide trend toward accepting large numbers on disability payments in exchange for lower unemployment insurance benefit rates (OECD 2009). Second, the customary employment contract—the implicit or explicit agreement between an employer and employee—in Japan may have a dampening effect on disability insurance application rates to the extent that it creates an obligation on the part of many employers to support their employees for as long as possible after the onset of a disabling condition.²⁶

Medical Consultation and Benefit Determination Process

Covered individuals in the NP and EPI programs are eligible to receive a permanent disability pension once they are assessed with a certain level of disability as specified by the appropriate law: Article 30(2) of the National Pension Act for the NP program or Article 47 (2) of the Employees’ Pension Insurance Act for the EPI program. To apply for a permanent disability benefit under either program, individuals advance through three stages. They must first consult with a physician and then complete two more stages that comprise the multistep determination process (Honeycutt, Terashima, and Kohyama 2005; Westat 1998). These three stages are detailed below and further in Box 4.

Stage I

Once an individual experiences a disabling condition (for example, physical injury or other illness covered under the NP and EPI disability programs) and sees a physician for treatment, the initial visit establishes what is referred to as the “first day of medical consultation”.²⁷ The importance of this action is two-fold:

- First, the “day of disability decision” is established. This is the determining date for which the disabling condition must be evaluated. The overall period from the first day of medical consultation until this date may last no longer than 1½ years (18 months), but can occur sooner if the applicant’s physical or mental condition becomes stabilized.²⁸ For example, in the case where an individual loses his or her legs or arms, it will probably not take the full 1½ years for the injuries to stabilize; thus the length of time for this period could be much shorter. If 1½ years elapse following the first day of medical consultation and the patient’s condition is still not stabilized (that is, the physician expects it may change in the future), then the disabling condition will nevertheless be evaluated at that time.
- Second, the individual may be able to claim cash benefits from the health insurance system during the waiting period for a benefit determination if he or she is unable to work. The Employees Health Insurance, for firms with more than five employees, provides a monthly benefit equal to two-thirds of the monthly income that the worker had earned before his or her first day of medical consultation. Temporary cash benefits are also available to employees through unemployment benefits from Labor Insurance. By contrast, those covered by the

Box 4.**Stages involved in applying for a permanent disability pension in Japan: Initial medical treatment and multistep determination process****Stage I Medical consultation resulting from the onset of a disabling condition**

- Establishment of “first day of medical consultation”
- Establishment of “day of disability decision” by when benefit decision must be rendered—maximum period of 1½ years (18 months) unless condition stabilizes
- Access to health insurance benefits may be possible if unable to work

Stage II Gathering the necessary paperwork to file a claim for a permanent disability pension

Step 1: Obtain a “Claim for Disability Benefits” form from the Social Insurance Office (EPI program) or municipal Pension Consultation Center (NP program)

Step 2: Have the claimant’s doctor issue a certificate diagnosing the disability

Stage III Filing a claim for a permanent disability benefit and evaluation (3½ month limit on processing)

Step 3: File a claim form for disability benefits along with the doctor’s certificate of diagnosis at the Social Insurance Office or Pension Consultation Center; claimants must also provide additional documentation

Step 4: A Japan Pension Service (JPS) clerk examines the claim form and accompanying documents

Step 5: An outside doctor, appointed by JPS, evaluates the claim

Step 6: A JPS clerk renders a decision whether or not to provide the disability pension to the claimant

SOURCE: Honeycutt, Terashima, and Kohyama (2005) and compiled by the author.

NP permanent disability program, primarily the self-employed and farmers, do not have access to short-term disability benefits through their National Health Insurance coverage. Their situation resembles that in the United States, where many workers would not have access to temporary cash sickness benefits.

Stage II

Preliminary steps to obtain proper documentation and medical certification precede a formal filing of the claim for a permanent disability pension. These are indicated by steps 1 and 2 below and are further detailed in Box 4:

1. Individuals must obtain a “Claim for Disability Benefits” form and file it with the appropriate office—NP applicants at their municipal Pension Consultation Center and EPI applicants at their nearest Social Insurance Office. In general, individuals whose initial examination for the disability condition took place before age 20 or at ages 60–65 file their claim at the Pension Consultation Center instead of the Social Insurance Office.²⁹
2. Applicants must obtain a physician’s certificate of diagnosis evaluating the disabling condition.

Stage III

This final stage involves filing the claim and following the steps to complete the determination process for a disability pension. JPS has its own self-imposed standard for processing disability claims for stage III, not to exceed 3½ months, which was adopted in April 2005. This period covers steps 3 through 6 (below)—from the date the disability claim is actually received by JPS until a final decision is issued by the agency.

3. Applicants need to file the claim form along with the certificate of diagnosis issued by their doctor at the Social Insurance Office or Pension Consultation Center. Insured claimants must also submit proof of their prior contributions, a certified copy of family registry,³⁰ a report on medical history, and a justification of how the disability affects their livelihood/work. Required documentation may vary depending on the disability condition.
4. A JPS clerk formally examines the claim form and supporting documentation to verify the claimant’s eligibility for a disability pension before the claim is sent to the central office for review.
5. An outside doctor appointed by JPS evaluates the claim regarding the level of disability and/or how

the disability affects the individual's daily life, according to standards in published tables.³¹

6. The JPS clerk renders a final decision on whether or not to approve the disability claim.

How does the medical consultation and benefit determination process in Japan compare with that in the United States? Table 5 (first row) lists the major characteristics of this decision process for both countries.

In the United States, eligible applicants can file their claim for disability benefits at any time, but they must complete a 5-month waiting period before being eligible for benefits, and the impairment must be expected to last a minimum of 12 months.³² Although relatively shorter in duration, the U.S. waiting period resembles the 18-month time interval in Japan; the U.S. waiting period ensures that benefits are provided only to claimants with long-term disabilities—much like the opportunity given to Japanese disability insurance providers to see how their applicants' conditions stabilize over time. This interval also allows other disability programs in the United States, both public (six states have temporary disability programs) and private, to provide protection during the initial disability period—not unlike how EPI participants may obtain short-term health insurance benefits in Japan. Cost containment is another justification for this waiting period in the United States (also implied by the 18-month waiting period in Japan).

In both Japan and the United States, applicants must submit medical evidence and other documentation to support their claim. The United States uses a five-step sequential evaluation process that determines whether (1) the impairment is severe; (2) the individual is engaging in SGA; (3) the impairments meets, or is equivalent to, an entry in SSA's Listing of Impairments; (4) the individual has the residual functional capacity to do his or her prior job; and (5) the individual has the residual functional capacity to do any job that exists in the national economy. Although both countries consider both medical and functional factors in the disability decision, Japan relies solely on the impairment tables, while the United States goes beyond the standardized tables (Listing of Impairments) and undertakes a separate evaluation of the individual's residual functional capacity and vocational prospects. Whereas the U.S. system must establish that the individual is unable to do any SGA, the Japanese system only requires the demonstration of significant impairment and/or functional limitation

and not whether it is specifically related to the ability to work.

Postadjudicative Review

In Japan, a yearly review is required of beneficiaries of disability pensions in the month of their birthday (Honeycutt, Terashima, and Kohyama 2005). Beyond notifying the authorities that they are alive, beneficiaries who are permanently disabled are not required to do anything more. However, beneficiaries who may not be totally disabled, such as group III beneficiaries under the EPI program or recipients of temporary disability benefits (for example, those awaiting a decision on their application to receive a permanent disability benefit and the waiting period extends beyond a year, but capped at 18 months), must submit documentation, including updates on their condition, or be subject to the loss of benefits. Depending on the disabling condition, beneficiaries may be asked to submit a medical certificate from their own doctor along with this annual report every 3 to 5 years.³³ Although vocational services are provided by the government through the Japan Organization for Employment of the Elderly and Persons with Disabilities, permanent disability beneficiaries are not required to use them. Generally, a more intensive review is demanded in the United States, as indicated in the final row of Table 5; SSA conducts continuing disability reviews on a schedule established by law with nonpermanent impairments requiring review at least once every 3 years. Cases where medical improvement is expected are scheduled for an earlier review. DI cases under Social Security are also reviewed once an individual has returned to work, generally at completion of a trial work period. Cases of permanent disability are reviewed every 7 years.

Appeals Procedure

In Japan, when a claim for disability benefits is rejected, the individual is given an opportunity to appeal that decision through an independent administrative appeals procedure designed to resolve disputes under the EPI, NP, and other social insurance programs (Japan MHLW 2008; Skoler and Zeitzer 1982).³⁴ Disputed claims involving benefits for insured persons or beneficiaries are first brought before an appeals examining officer of the regional Social Insurance Bureau.³⁵ Examining officers are appointed by the MHLW separately for each region.

This request (written or oral) may be made directly to a regional examining officer within 60 days of notification of the Ministry's decision. After receiving

Table 5.
Claims and appeals procedures for permanent disability programs: Comparison of system characteristics in Japan and the United States

Characteristic	Japan	United States
Decision process	After establishing that a disabling condition exists in a medical consultation, the individual files a claim at appropriate office. Certificate of diagnosis from a doctor shows level of disability (group I, II, or III). The claimant submits proof of contribution, reports on medical history, and impact of disability on his or her life. A clerk examines the claim and evidence to verify eligibility. A doctor appointed by the Japan Pension Service (JPS) evaluates the claim and level of disability according to impairment standards in published tables. A JPS clerk renders the final decision.	The individual files an application with the Social Security Administration (SSA); the claim is forwarded to a state disability determination service office, which collects existing medical evidence and/or sends the applicant to a physician for a consultative exam; the disability examiner, with support from a doctor, reviews medical evidence and makes a determination based upon a five-step sequential evaluation process considering medical conditions under a listing of impairments or based on residual functional capacity and vocational considerations.
Appeals process	A denied claim can be disputed with a regional examining officer reviewing the claim. If the claimant is unsuccessful, the next level of appeal is to the Social Insurance Appeals Committee, a committee of six members appointed by the prime minister and approved by the legislature. Three committee members generally hear an appeal and render a majority decision. Final appeals are handled by the judicial system, although this is rare.	If a claim is denied there are several appeals steps: (1) reconsideration, where the claim is reviewed by a different disability examiner in the same state agency; (2) a hearing in front of a federal administrative law judge, where the individual has the opportunity to appear in person with witnesses; (3) appeal to the Appeals Council; and (4) appeal to the federal court system.
Appeals rates	With an average annual back-log of approximately 700 or more cases, the total number of claims under review by appeals examiners exceeds 5,000, which represents slightly more than 4 percent of the flow of new disability pensions awarded in recent years. Of disability claims actually processed, only about 9–11 percent were granted by appeals examiners. Remaining claims processed in any given year are either dismissed or denied about 67–74 percent of the time; claimants withdraw their claim 16–21 percent of the time.	Over 2.1 million claims were filed for disability benefits in 2006, and nearly a third of those did not meet nonmedical eligibility standards (technical denials). Of 1.5 million individuals who received medical decisions, 35 percent were allowed at the initial decision. Of the 65 percent denied, more than half appealed to the reconsideration level, where 9 percent were allowed. Decisions at the hearings level are not yet complete for this cohort of individuals, but generally about 80 percent of those are denied at reconsideration appeal to the hearings level, where over 70 percent are awarded disability benefits.
Time frames	Japan has timeframes for rendering disability decisions at each step in the process: 1½ years for determining an application following the initial medical consultation; 3½ months at the initial level once an application is filed; and 60 days at the disputed claim level.	There is a 5-month waiting period. Otherwise, SSA does not have established time frames for rendering a decision. In 2006, average processing times at each level of the appeals process were 88 days at the initial level, 483 days at the hearing level, and 203 days at the Appeals Council level.
Postadjudicative review	A yearly review is made in the month of the beneficiaries' birthday, which may require the submission of documentation updating the condition. Most permanent beneficiaries need not undergo this process. A medical certificate may be required every 3–5 years, depending on condition.	SSA must conduct continuing disability reviews on a schedule established by law with nonpermanent impairments requiring review at least once every 3 years. Cases where medical improvement is expected are scheduled for an earlier review, and cases of permanent disability are reviewed every 7 years. DI cases are also reviewed once an individual has returned to work, generally at the completion of a trial work period.

SOURCE: Compiled by the author and SSA staff.

the request, the examining officer notifies interested parties (for example, claimant, employer, and so forth) that a request for review has been filed and invites them to comment orally or in writing about the claim. The conduct and content of the appeal hearing—including requirements that witnesses and interested parties appear and share their opinions, information, or documentation concerning the claim—are subject to the discretion of the examining officer. The examining officer may accept or reject the claimant's request, either totally or partially, in writing. If an examining officer does not render a decision within 60 days from the date of the original request for review, the request is considered denied.

When a claim is dismissed by the regional examining officer, the claimant may file another appeal of the decision to the Social Insurance Appeals Committee within 60 days' notice of the decision. This committee consists of a chairman and five members appointed by the prime minister and approved by Japan's legislature. It has appellate jurisdiction over benefit claims submitted to regional examining officers and original jurisdiction over appeals regarding social security contributions and related issues. Usually, only three members of the committee sit to hear an appeal, and their decision is rendered by majority vote. For the deliberation, the MHLW appoints senior counselors, who are

allowed to argue on behalf of the plaintiff (individual claimant or employer) whom they represent. A decision in favor of the claimant returns the case to the examining officer for a new decision. Should this two-tiered administrative procedure become exhausted, a claimant can bring a dispute into the regular judicial system, although such cases are extremely rare.

The volume of disputed claims under the MHLW's two-tier appeals procedure is relatively small. It was noted earlier in Table 4 that roughly 100,000 disability pensions are granted each year. Data in Table 6 indicate that the number of claims submitted in the first round to regional appeals examiners rose from 3,813 to 4,314 during the 2004–2006 period. Because of an average annual backlog of approximately 700 or more cases, the total number of claims under review by appeals examiners during that time increased from 4,500 to over 5,000, representing slightly more than 4 percent of the flow of new disability pensions awarded in recent years. Of the disability claims actually processed at this initial appeals level from 2004 through 2006, only about 9–12 percent were granted by appeals examiners. Remaining claims processed in any given year were either dismissed or denied about 67–74 percent of the time; claimants withdrew their claims 16–21 percent of the time.

Table 6.
Number and percent of disputed claims (tier one) submitted to regional appeals examiners for permanent disability pensions in Japan, under the appeals procedure of the Ministry of Health, Labor, and Welfare, 2004–2006

Fiscal year	Received			Processed				
	Carryover ^a	Receipt	Total	Withdrawal	Granted	Dismissed ^b	Denied ^c	Total
2004								
Number	688	3,813	4,501	771	347	2,516	119	3,753
Percent	15.3	84.7	100.0	20.5	9.2	67.0	3.2	100.0
2005								
Number	748	3,955	4,703	828	470	2,542	101	3,941
Percent	15.9	84.1	100.0	21.0	11.9	64.5	2.6	100.0
2006								
Number	762	4,314	5,076	693	424	2,984	134	4,235
Percent	15.0	85.0	100.0	16.4	10.0	70.5	3.2	100.0

SOURCE: Personal communication, via e-mail, between the author and Ministry of Health, Labor, and Welfare officials (December 19, 2008).

NOTES: Data herein reflect the end of the fiscal year. The fiscal year in Japan begins on April 1 of the previous calendar year and ends on March 31 of the year with which it is numbered.

a. Reflects disputed claims that remain unprocessed from the previous year.

b. Dismissed means rejection because of substantive reasons (for example, qualifying medical condition).

c. Denied means rejection because of lack of qualification (for example, qualifying contribution).

Based on data shown in Table 7 for processed claims appealed at the next level, the Social Insurance Appeals Committee received roughly 29–36 percent of those claims either dismissed (for substantive reasons, such as failure to satisfy medical condition(s)) or denied (failure to qualify, for example, as in meeting the required contributory period) by appeals examiners during the 2004–2007 period. At this secondary level of review, several hundred cases per year were usually carried over from the previous year, so the Social Insurance Appeals Committee generally dealt with less than 1,200 appeals in 2004 to nearly 1,400 appeals in 2007, and it processed anywhere from 50–80 percent of the overall caseload available in any given year. Among cases processed at this secondary level of review during that 4-year time period, 16–22 percent of claimants withdrew their claim; 5–14 percent received a favorable decision; and 65–79 percent had their cases either dismissed or denied. There are no data available on the number of denied appeals brought into the regular judicial system.

How does the appeals procedure in Japan compare with that in the United States? An appeals procedure is

available in both countries for claimants who are dissatisfied with the initial decision and want to request further review. A multistep review process can involve a case review followed by a hearing at ever higher levels of adjudication, which may conclude with a final appeal handled by the judicial system. Such reviews must be requested within a specified interval at each step along the way—for example, 60 days following an adverse decision in both Japan and the United States.

In the United States, there are four levels of appeal as indicated in the second row of Table 5. The first level involves reconsideration by the disability determination services—state-run agencies tasked with making disability determinations for the federal DI program, which makes the initial determination. If the claim is again denied, the individual may request a hearing before an administrative law judge (ALJ), who draws on the evidence on file and any new evidence submitted for consideration. This is the first opportunity the claimant has to meet face to face with the decision-maker and to present witnesses. Next, the Appeals Council, consisting of ALJs, may grant or deny a review based on the evidence on file, any additional evidence submitted by the claimant, and

Table 7.
Number and percent of claims submitted (tier two) to the Social Insurance Appeals Committee for permanent disability pensions in Japan, under the appeals procedure of the Ministry of Health, Labor, and Welfare, 2004–2007

Fiscal year	Received			Processed				
	Carryover ^a	Receipt	Total	Withdrawal	Granted	Dismissed ^b	Denied ^c	Total
2004								
Number	460	728	1,188	127	83	322	61	593
Percent	38.7	61.3	100.0	21.4	14.0	54.3	10.3	100.0
2005								
Number	595	768	1,363	172	61	586	77	896
Percent	43.7	56.3	100.0	19.2	6.8	65.4	8.6	100.0
2006								
Number	467	882	1,349	169	57	739	104	1,069
Percent	34.6	65.4	100.0	15.8	5.3	69.1	9.7	100.0
2007								
Number	280	1,111	1,391	245	80	641	146	1,112
Percent	20.1	79.9	100.0	22.03	7.2	57.6	13.1	100.0

SOURCE: Personal communication, via e-mail, between the author and Ministry of Health, Labor, and Welfare officials (December 19, 2008).

NOTES: Data herein reflect the end of the fiscal year. The fiscal year in Japan begins on April 1 of the previous calendar year and ends on March 31 of the year with which it is numbered.

a. Reflects disputed claims that remain unprocessed from the previous year.

b. Dismissed means rejection because of substantive reasons (for example, qualifying medical condition).

c. Denied means rejection because of lack of qualification (for example, qualifying contribution).

the original ALJ's findings and conclusions. Finally, the U.S. federal court system allows claimants to file suit regarding a disputed decision, which may then be upheld, reversed, or remanded back to SSA for a new decision.

Figures for appeals rates also differ substantially between the two countries as indicated in Table 5. Japan's average annual backlog of roughly 700 cases, 5,000 claims reviewed annually (slightly more than 4 percent of new disability pensions granted), and the 9–11 percent of successful appeals in any given year reflects a much smaller scale with distinctly different results. In the United States, there were over 2.1 million claims for disability benefits filed in 2006. Nearly a third of these resulted in technical denials that did not meet nonmedical eligibility standards. Of the 1.5 million individuals receiving medical decisions, 35 percent were allowed at the initial decision. Of the 65 percent denied, more than half appealed to the reconsideration level, where 9 percent were allowed. Although decisions at the hearings level are not yet complete for this cohort of individuals, we can expect that about 80 percent of those denied at reconsideration will appeal to the hearings level, where over 70 percent will be awarded disability benefits.³⁶

Conclusion

Permanent disability programs under social insurance in Japan protect citizens from the loss of income as the result of an accident or illness. First introduced for workers in the 1940s, these programs have expanded their coverage, and they now protect over 70 million workers and their dependents who may become disabled. Eligibility criteria remain quite strict in that covered individuals may receive benefits only when they experience long-term impairment and limitations in daily living. The actual population receiving benefits remains relatively small when compared with the United States and other developed countries. Program provisions have changed little since 1986, when the flat-rate NP program was integrated with the earnings-related EPI program in a major reform of the public pension system.

As the pension system has matured in Japan, the numbers of beneficiaries and expenditures for permanent disability programs have grown modestly and with little significant variation over time.³⁷ Beneficiaries of permanent disability programs currently represent 2.2 million persons, or 2.8 percent of the working-age population. EPI beneficiaries have remained at roughly 21–22 percent of all permanent

disability beneficiaries throughout the period. Expenditure data show some movement from 1986 through 2005 in terms of GDP (the NP program increased from about 0.2 percent to 0.3 percent), but a decline in the two programs' combined (NP and EPI) percentage of public pensions (a decrease from 5.75 percent to 4.12 percent) may be due to higher spending on old-age pensions for an aging population. The share of overall disability pension expenditures devoted to the EPI program fell from about 28 percent in 1986 to 23 percent in 2005. According to government officials, there are no immediate plans for any major change to these programs in the future.

The disability determination process in Japan has multiple steps to establish that the applicant's disabling condition is truly long term and limits his or her daily living experience. Of significance are the time limits imposed on the determination process. First, there is an 18-month restriction imposed from the time the applicant consults with a doctor issuing a certificate of diagnosis until a decision is rendered to the applicant. Another significant feature of this process (since 2005) is the fact that JPS limits the duration for processing disability claims to 3½ months—from the time a disability claim is formally submitted until the decision must be issued.

A multitier appeals procedure operates in Japan to resolve disputes when questions arise from the disability determination process. This process occurs first at a regional level; next, rejected appeals may be submitted to a higher national forum; finally, disputed claims, after exhausting all administrative venues for appeal, may be brought before the judicial system. Time limits for appealing an adverse decision amount to 60 days following the issuance of a negative pronouncement. Recent data suggest that a minor percentage of rejected claimants utilize the appeals process; few claimants are successful and even fewer lodge such a claim with the judicial system.

Permanent disability programs in Japan and the United States share a number of similar characteristics, including—

- broad coverage that requires adults to contribute to a program for a certain period of time,
- benefits claimed before the applicant reaches retirement age,
- coverage for dependents, and
- annual benefit adjustments based on changes in the cost of living.

The benefit determination and appeals procedures are comparable in terms of the overall approach—the medical consultation anchoring a determination process and a multilevel appeals framework.

However, program experiences in Japan and the United States diverge markedly in several areas, making the comparison worthwhile from a policy perspective:

- *General system features*—The two-tier (since 1986) public pension framework in Japan is more complicated than the single-tier, earnings-related DI program covering all workers, with earnings-related benefits provided to beneficiaries covered under the EPI program and flat-rate NP benefits partially subsidized by the government.
- *Criteria for eligibility*—The focus of eligibility criteria in Japan (severity of impairment) is quite different from the U.S. approach, which includes not only a medical condition but also the ability to engage in SGA. The narrower focus in Japan may serve to dampen the rate of incoming beneficiaries.
- *Calculation of benefits*—The benefit calculation in the U.S. system, based on SGA and loss of earnings, differs substantially from the severity of impairment in Japan as the primary determinant, which can result in the granting of 100 percent or more of old-age pensions to those receiving permanent disability pensions in that country.
- *Treatment of work*—Programs in Japan generally permit most disability beneficiaries to work as much as they wish without affecting their benefit eligibility, while the U.S. system provides work incentives, but terminates benefit eligibility after a successful return to SGA.
- *Duration of application procedures*—Time markers are initiated once the applicant reaches a certain point in the application process for programs in both countries, but these markers have rather different features and rationales—18 months from the initial medical consultation in Japan versus a 5-month waiting period and a 12-month duration of disability requirement in the United States and a rigid 3½ month processing deadline in Japan versus no processing deadlines in the U.S. system.
- *Processing of applications*—In Japan, data on the average processing times for benefit determination (although there is a 3½ month limitation) and appeals procedures are not readily available. In the United States, average processing times in

2006 were 88 days at the initial level, 483 days at the hearing level, and 203 days at the Appeals Council level.³⁸

- *Access to temporary cash assistance*—Access to temporary cash disability benefits under health insurance or other employer-funded protection in Japan may allow employees with access to such programs to buy time while awaiting the determination of an application for a permanent disability pension—an opportunity not available to those covered under Japan’s NP program or to many applicants in the U.S. program.
- *Outcome of claims and appeals*—The level of benefit applications and appeals in Japan is on a much smaller scale than in the United States. Successful appeals in the Japanese system, at the rate of 9–11 percent, is much lower than in the American system.

The stability of Japan’s permanent disability programs is uncommon. Although the NP and EPI programs address separate population groups, they are characterized by relatively small beneficiary pools (vis-à-vis international comparisons), an emphasis on functional impairment over incapacity for work (that is, reduced earnings) in the eligibility criteria, and liberal work rules for the vast majority of beneficiaries. The long-term stability in terms of both the stock and flow of beneficiaries relative to other countries, as documented in a recent OECD (2009) study, indicates that Japan’s permanent disability programs are somewhat exceptional from both a reciprocity and cost perspective. Take-up rates for these programs are not high nor do expenditures on these programs appear likely to escalate. The availability of other government or employer-provided programs, which might compete with long-term disability programs such as National Health Insurance, is not unusual among OECD countries. However, the lack of a test for loss of earnings in the eligibility criteria in Japan is unique.

Further analysis to help understand some of the more distinctive features found in Japan’s permanent disability programs in comparison with other countries, such as the United States, could include cultural and/or socioeconomic norms and their impact on how the population views permanent disability programs. This could explain how potential applicants (and even employers) approach these programs and provide insight into the outcomes documented in this article for benefit decision and appeal processes in Japan.

Notes

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¹ Before age 20, certain welfare benefits are also provided (Murakami 1985).

² This monthly amount will increase annually by 280 yen (US\$2.79) until it reaches 16,900 yen (US\$168.29) each month in 2017 (Honeycutt, Terashima, and Kohyama 2005). It should be noted that amounts are expressed in terms of 2004 yen and will be indexed to increases in the rate of gross salary per worker.

³ The denominator of the replacement ratio is the average annual disposable income of active male workers. The corresponding calculation for the household replacement rate assumes that the husband has earned the average salary his entire life (Sakamoto 2005).

⁴ These replacement rates are projected to decline gradually to 36 percent by 2023 for male employees and to about 50 percent for households by 2023 (Sakamoto 2005).

⁵ For men, the earliest age to receive retirement benefits will increase by 1 year every 3 years starting in 2013 until it reaches age 65 in 2025; for women, the earliest age to receive benefits will rise by 1 year every 3 years starting in 2018 until it reaches age 65 in 2030 (Kabe 2007).

⁶ The Social Insurance Agency was dissolved on January 1, 2010, and became the Japan Pension Service on that day. SIA's original role as administrator to programs for social insurance pensions and health insurance was reviewed following a series of administrative scandals. In 2005, it was decided to split the SIA into two organizations, and laws were then passed in 2007 to achieve that objective. As a consequence, those SIA departments dealing with health insurance were separated from SIA on October 1, 2008 (eWeekly Japan 2010).

⁷ In 2003, 70.5 million individuals were covered under these two programs, including 32.2 million workers under the EPI, 11.2 million spouses of EPI-insured workers, and 22.4 million persons under the NP program who were self-

employed, farmers, students, or others ineligible for the EPI program (Honeycutt, Terashima, and Kohyama 2005).

⁸ If the person is in a disabled condition listed in the NP law at age 20, he or she can start receiving a disability pension without contributing.

⁹ Cross-country comparisons of disability provisions that include Japan are indeed rare. One 12-country study (Bolderson and Gains 1993) from the United Kingdom in the early 1990s observed that Japan's eligibility criteria to receive permanent disability benefits are based almost entirely on severity of impairment.

¹⁰ Also, the low-earner exemption from contributing into the NP program in Japan, which results in a lower benefit, does not have a corresponding category in the DI program under Social Security in the United States.

¹¹ This calculation uses the average monthly industrial earnings for an employee, as reported in Table G of the Japan Monthly Statistics (Japan Statistics Bureau 2009).

¹² The EPI old-age benefit formula depends on the total months of participation and the average indexed monthly earnings and bonuses. For more information see Honeycutt, Terashima, and Kohyama (2005). A very detailed presentation of the formulas involved are available from the Japan Pension Service at <http://www.sia.go.jp/e/epi.html> for the EPI program and at <http://www.sia.go.jp/e/np.html> for the NP program.

¹³ When a dependent spouse reaches age 65 and receives a pension in her or his own right under the NP program, the supplement ceases (SSA 2009b).

¹⁴ More specifically, the U.S. system offers dependents' benefits to spouses of disabled workers if they are dependent on the worker (that is, aged or have a child in care), but that is not disability coverage as understood for the EPI program in Japan. In the United States, the only Social Security disability coverage offered to spouses is for disabled widow(er)s and is paid through the Old-Age and Survivors Insurance Trust Fund, not the Disability Insurance Trust Fund.

¹⁵ To qualify for this grant under the EPI program, eligible individuals must be evaluated for mental and intellectual disabilities to see if their impairment(s) meets the definition of 1 of 22 disability conditions (Honeycutt, Terashima, and Kohyama 2005).

¹⁶ Receipt of a disability pension also exempts beneficiaries from paying contributions for social insurance, including pensions, health insurance, and long-term care (Honeycutt, Terashima, and Kohyama 2005).

¹⁷ The 2004 social security reform relaxed these restrictions slightly by lifting them for those beneficiaries whose disability began before they reached age 20 and are currently detained in jail awaiting a court judgment. Such cases are unusual, however.

¹⁸ As of August 2004, if annual income was higher than 3,984 million yen (US\$36,678) for a two-person household, then benefits were reduced by 50 percent; if annual income was more than 5,001 million yen (US\$46,041), then the entire benefit was suspended (Japan MHLW 2005).

¹⁹ States may supplement the federal SSI payment, which is currently (2009) \$674 for an individual and \$1,011 for a couple (the spouse must also be disabled or aged 65 or older to be eligible). At present, 45 states and the District of Columbia offer state supplemental payments to at least some of their SSI recipients.

²⁰ The SSI program uses the same earnings-based definition of disability as the DI program.

²¹ As indicated in Table 2 (note a), the Japanese and American sample differ somewhat. Self-reporting individuals in U.S. surveys are persons aged 16–64, whereas the Japanese sample includes persons aged 18 or older who reported a physical or intellectual disability and those aged 20 or older who reported a mental disability.

²² In 2005, besides 6.5 million disabled-worker beneficiaries, 220 thousand disabled widow(er)s, and 770 thousand disabled adult children in the United States, the DI program also paid benefits to 1.7 million dependents of disabled workers.

²³ The proportion of the NP disability pension as a share of total NP pension expenditures is also fairly small, representing about 8 percent in 2007.

²⁴ Income restrictions imposed on those who became disabled before reaching age 20, as a result of the 2004 social security reform, appear to be the primary cause for the decline—at least for the NP program.

²⁵ In ascending order, these countries include Italy, Canada, Germany, Austria, and Denmark (OECD 2009).

²⁶ Traditionally, Japanese employees who enter old age (with lower productivity) formally leave their jobs, but then take a new position (often with lower pay and status) either with their original employer, a subsidiary, a new company, or they become self-employed. As a consequence, the national employment rate for persons older than age 64 in Japan is one of the highest in the world.

²⁷ It is assumed that the applicant has satisfied the basic eligibility requirements at this time for either the NP or EPI program, whichever is appropriate.

²⁸ The period in which applicants with a disability condition were required to have their application for a disability benefit determined was 2 years until 1953. This period was increased to 3 years until 1977 and then reduced to the current 1½ years at that time.

²⁹ Among Japan's 47 regions, there are 71 Pension Consultation Centers and 265 Social Insurance Offices.

³⁰ Japanese law requires all households in the country to report a variety of life events—including births, deaths, marriages, and divorces—to their local authority, which

compiles such records encompassing all Japanese citizens within their jurisdiction (Japan Children's Rights Network 2007).

³¹ According to Takayama (2004a), this medical check for disability qualification is usually quite strict, and cases of fraud are not usual.

³² The waiting period starts with the first full month of disability, which is the month after the month of onset of the disabling condition, unless it occurs on the first day of the month. With few exceptions, no recipient can start to receive benefits before the completion of this waiting period.

³³ According to MHLW officials, there are no data on the number of beneficiaries who are denied benefits as a result of this medical review.

³⁴ This section draws exclusively on information from an unpublished document by Japan's MHLW (2008) and the article by Skoler and Zeitzer (1982).

³⁵ Appeals by employers or insured persons regarding the collection of contributions bypass the regional examining officer review. Instead, those appeals go directly to the Social Insurance Appeals Committee if they are made within 60 days of the original rejection notice from the MHLW. We focus on benefit appeals in this section.

³⁶ For more details on allowance rates at all levels of appeal, the reader should consult the Annual Statistical Report (SSA 2009a, Tables 59–64).

³⁷ A slight decline in the number of NP beneficiaries since 2004 appears to reflect tighter program eligibility, while the reason for a similar decline in the EPI program is not evident.

³⁸ For more details about the processing time involved for each level of the appeals process in the United States, see the Audit Report issued by SSA's Office of the Inspector General (SSA 2008b).

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