The effect of mandatory retirement on mental health in Japan

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Abstract

This paper analyzes the effect of mandatory retirement on elderly's mental health in Japan. As broadly known, Japan's population is rapidly aging. The rapid aging makes a serious problem on public pension system. To deal with this problem, Japanese government decided to extend the pensionable age 60 to 65. In most Japanese companies, however, its compulsory retirement age is 60. Retirees have to live five years without pension. Japanese government, therefore, is trying to extend compulsory retirement age 60 to 65. This change possibly affects the mental health of elderlies. In this paper, we use Japanese panel data, *National Family Research of Japan, 2008-2012 Panel Study* (NFRJ-Panel08). We estimate the effect of mandatory retirement on CES-D. Our estimation suggests that mandatory retirement deteriorates elderly's mental health.

Introduction

As broadly known, Japan's population is rapidly aging. The rapid aging makes a serious problem on public pension system. To deal with this problem, Japanese government decided to extend the pensionable age 60 to 65. In most Japanese companies, however, its compulsory retirement age is 60. Retirees have to live five years without pension. Japanese government, therefore, is trying to extend mandatory retirement age 60 to 65. This change possibly affects the mental health of elderlies. To date, few studies have analyzed the effect of mandatory retirement on elderly's mental health in Japan. Thus, this paper will provide valuable findings for policy makers.

Hypothesis

Elderly retirees face the completely different living environment and time schedule after retirement. This becomes a stress for them. Although, some elderlies continue to work as non-regular employee after mandatory retirement in Japan, both of their economic condition and social status substantially go down compared to before retirement. This change possibly deteriorates the mental health of elderlies.

Data and Methods

In this paper, we use Japanese panel data, *National Family Research of Japan, 2008-2012 Panel Study* (NFRJ-Panel08). This survey was conducted every year from 2008 to 2012. The sample used in this study consists of married respondents over 50 years old and having worked in Wave 1. As a dependent variable, we use CES-D. The estimation equation is as follows:

$$CES\text{-}D_{it} = \delta_1 R_{i,t-1} + \delta_2 R_{i,t-2} + \mathbf{x}'_{it}\boldsymbol{\beta} + a_i + u_{it}$$

We estimate the effect of mandatory retirement two years ago, R_{t-2}, and mandatory retirement one year ago, R_{t-1}, on CES-D in survey year t. We also use some factors, $\mathbf{x}$, influencing mental health like annual income, age, physical health and the number of families living with as control covariates. If mandatory retirement deteriorates mental health, the sign of retirement, δ, will show positive.

Estimation results

As a result of this estimation, we find positive significant sign of mandatory retirement two years ago, but do not find significant effect of retirement one year ago. That is, mandatory retirement does not affect elderly's mental health immediately, but affects with a lag of one year.

Conclusion

We examined the effect of mandatory retirement on mental health of elderlies using Japanese panel data. Japanese government is trying to extend mandatory retirement age 60 to 65 to deal with aging society. According to the estimation results, mandatory retirement deteriorates elderly's mental health. This means that recent Japanese government policy improves the mental health of early 60s. Moreover, mental health care for elderly retirees is necessary within a year after mandatory retirement.