Abolition of the “1.06 Million Yen Wall” and Its Impact on Businesses

— Key Points for SME Owners and HR Professionals —

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Section 1 Introduction

In recent years, the so-called “1.06 million yen wall” — a wage requirement under which part-time and casual workers deliberately limit their earnings to avoid incurring social insurance premium obligations (specifically, the requirement that scheduled wages be JPY 88,000 or more per month) — has long been identified as a factor exacerbating labor shortages for businesses.

Against this backdrop, the “Bill to Partially Amend the National Pension Act and Other Acts for the Purpose of Strengthening the Functions of the Pension System in Response to Socioeconomic Changes” (hereinafter the “Pension System Reform Act”), submitted to the Diet on May 16, 2025, was passed with amendments by the House of Representatives on June 13, 2025, and promulgated on June 20, 2025. This reform formally decided to abolish the “1.06 million yen wall”— one of the eligibility criteria for short-hour workers to enroll in social insurance (health insurance and employees’ pension insurance).

Implementation is scheduled for October 2026, with the company-size requirement (currently applicable to businesses with 51 or more insured employees) also set to be phased out from 2027 onward. This reform will directly affect the employment strategies, labor costs, and work rules of small and medium-sized enterprises (SMEs).

This newsletter draws primarily on official information from the Ministry of Health, Labour and Welfare (MHLW) to outline the reform and its background, and explains from a legal perspective the key practical impacts and recommended responses for SME owners and HR professionals.

Section 2 Overview of the Current System and Details of the Reform

1. Current Social Insurance Enrollment Requirements (Before the October 2026 Amendment)

Currently, part-time and casual workers must satisfy all of the following conditions to be enrolled in social insurance (health insurance and employees’ pension insurance):

Requirement	Content (Before Amendment)
(1) Company size	Business with 51 or more insured employees
(2) Working hours	Scheduled weekly working hours of 20 hours or more
(3) Wages — to be abolished	Scheduled wages of JPY 88,000 or more per month (approx. JPY 1.06 million per year)
(4) Employment period	Expected to be employed for more than 2 months
(5) Other	Not a student

(Source: MHLW “Response to the Income Walls” https://www.mhlw.go.jp/stf/taiou_001_00002.html)

Condition (3), the wage requirement (JPY 88,000/month, equivalent to approximately JPY 1.06 million per year), is the true nature of the “1.06 million yen wall.” This has led to widespread work-hour adjustments by employees seeking to keep their income below the threshold. The MHLW has treated the creation of an environment in which short-hour workers can work without being constrained by income thresholds as a key priority, particularly as addressing labor shortages has become increasingly urgent.

2. Details of the Reform

The Pension System Reform Act expands the scope of employees' insurance coverage, including abolishing the "1.06 million yen wall." According to the MHLW's official website[1], the enrollment requirement will be simplified to "20 or more hours of work per week," with the wage requirement (JPY 88,000 or more per month) to be abolished within three years, taking into account trends in national minimum wage increases, and the company-size requirement to be gradually expanded and abolished over ten years.

The key point is that from October 2026 onward, "20 or more scheduled working hours per week" will be the sole effective enrollment criterion. In other words, the "1.06 million yen wall" will shift to become a "20-hour-per-week wall."

The specific implementation schedule currently planned is as follows:

Implementation Date	Key Changes
October 2026	Abolition of wage requirement (JPY 88,000/month or more)
October 2027 onward	Phased abolition of company-size requirement (51+ employees) begins*
October 2029	Extension to sole proprietor offices (5+ employees on a regular basis, all industries)
October 2035	Complete abolition of company-size requirement (all businesses covered)

(Source: MHLW "Response to the Income Walls" https://www.mhlw.go.jp/stf/taiou_001_00002.html; "Social Insurance Coverage Expansion Special Website" https://www.mhlw.go.jp/tekiyoukakudai/ as of April 2026. Implementation schedule includes aspects subject to finalization by Cabinet Order.)

*Regarding the company-size requirement, the schedule indicates that businesses with 36 or more employees will become subject to the requirement from October 2027, 21 or more employees from October 2029, and 11 or more employees from October 2032, with the requirement completely abolished from October 2035 (MHLW, "Key Points on Expanding Social Insurance Coverage for Short-Hour Workers" (prepared January 2026), among other sources).

3. Background to the Reform

The primary background to the abolition of the wage requirement is the continuous rise in minimum wages. The minimum wage in fiscal year 2025 has exceeded JPY 1,016 per hour in all prefectures[2], meaning that working 20 hours per week automatically exceeds the monthly wage of JPY 88,000. As the wage requirement was losing its practical significance, abolition became inevitable. In addition, the policy imperative to ensure the sustainability of pension finances amid Japan's declining birthrate and aging population was also an important motivating factor.

Section 3 Key Impacts on Businesses

1. Increase in Social Insurance Premiums Borne by Employers

Since social insurance premiums are in principle shared equally between employers and employees[3], the employer's cost burden increases directly in proportion to the number of newly enrolled employees. This impact will arise regardless of business size; however, for SMEs in particular, part-time workers often account for a larger share of the workforce, meaning the relative impact of additional premium burdens on overall business management can be significant. Based on the assumptions used in the MHLW's "Social Insurance Premium Easy Simulator"

[1] 1. MHLW "Response to the Income Walls" https://www.mhlw.go.jp/stf/taiou_001_00002.html
[2] 2. MHLW "Pension System Reform Act Has Been Enacted" https://www.mhlw.go.jp/stf/seisakunitsuite/bunya/0000147284_00017.html
[3] 3. MHLW "Social Insurance Coverage Expansion Special Website" https://www.mhlw.go.jp/tekiyoukakudai/

(FY2026, Japan Health Insurance Association national average), the employer's cost breakdown for one newly enrolled employee aged 39 or under with a monthly wage of JPY 88,000 is as follows:

Type of Insurance	Premium Rate (Employer's Share)	Monthly Burden (Estimate)
Employees' Pension Insurance	9.15% (of 18.3%)	Approx. JPY 8,052
Health Insurance	4.95% (of 9.9%, national average)	Approx. JPY 4,356
Child and Childcare Support Fund	0.115% (of 0.23%)	Approx. JPY 101
Child and Childcare Contribution	0.36% (fully borne by employer)	Approx. JPY 317
Total	—	Approx. JPY 12,826 per month

(Assumptions: Monthly wage of JPY 88,000; one employee aged 39 or under; Japan Health Insurance Association national average premium rates (FY2026). Based on the assumptions of the MHLW "Social Insurance Premium Easy Simulator" https://www.mhlw.go.jp/tekiyoukakudai/jigyonushi/shanaijunbi/#simulator1. An additional nursing care insurance premium (0.81% employer share of 1.62%) applies for employees aged 40–64. Actual amounts will vary depending on the health insurance association, wage level, and age.)

Based on this estimate, the increase in employer costs per newly enrolled employee is approximately JPY 154,000 per year (JPY 12,826 × 12 months). For businesses employing many part-time workers, the additional burden will increase proportionally to the number of newly eligible employees.

2. Human Resources Management Challenges

A critical aspect of this reform is the practical shift in the social insurance enrollment threshold from "an annual income of JPY 1.06 million" to "20 or more hours of work per week." Employees who previously adjusted their working hours based on income levels may now seek to keep their working hours below 20 hours per week.

From a business perspective, having key staff voluntarily reduce their working hours creates a significant impediment to workforce planning. For SMEs in particular, reliance on each individual part-time worker tends to be higher, meaning the operational impact of work-hour adjustments is more likely to manifest directly on the front line.

Furthermore, as the 20-hour threshold is determined by "scheduled working hours" under the employment contract, discrepancies between the contractual description and actual shift patterns could give rise to disputes over the determination of enrollment eligibility.

3. Implications for Businesses Currently Outside Scope

At the time of implementation in October 2026, businesses with 50 or fewer insured employees will not be directly subject to the wage requirement abolition. However, the company-size requirement is already scheduled to be progressively reduced and abolished from October 2027 onward, with all businesses covered by October 2035.

The preparation period required for amending work rules and establishing procedures for enrollment tends to be relatively longer. Concluding that "this does not apply for the time being" risks significantly increasing future compliance costs. We strongly recommend beginning preparations with ample lead time.

Section 4 Recommended Actions for Businesses

1. Internal Audit and Financial Impact Assessment

The starting point is to accurately understand the current state of your business. Identify employees who work 20 or more scheduled hours per week but are not currently enrolled in social insurance, and calculate the number of employees who will become newly eligible after implementation, together with an estimate of the additional premium burden. The MHLW's "Social Insurance Coverage Expansion Special Website" (https://www.mhlw.go.jp/tekiyoukakudai/) offers a simulator tool for employers that allows you to estimate annual costs by entering the number of eligible employees, average wages, and bonus information.

Based on the assessed financial impact, businesses should begin exploring measures to absorb the additional costs across the entire operation at an early stage, such as price adjustments, operational reviews, and redesign of shift structures.

2. Review of Work Rules and Employment Contracts

Work rules should be clearly updated to reflect the revised enrollment criterion (20 or more hours per week), and employment contracts should be reviewed to ensure that the stated scheduled working hours are consistent with actual practice. Ambiguous descriptions of scheduled hours or discrepancies between contractual terms and actual shift patterns may give rise to disputes over the determination of enrollment eligibility.

Please note that if an employer unilaterally reduces an employee's scheduled working hours to avoid the social insurance premium burden, this may constitute a "disadvantageous amendment" to the work rules under Article 9 of the Labor Contracts Act, potentially rendering the change void. There is also a risk of claims for the difference in wages where only the reduced-hours wage is paid.

Any amendment to working conditions under work rules that accompanies the increase in the employer's social insurance premium burden requires careful assessment of whether the amendment constitutes a "disadvantageous amendment" and of the risk of subsequent disputes.

3. Advance Preparation for Social Insurance Enrollment Procedures

For employees who meet the enrollment conditions on the implementation date (October 2026), the employer must, in principle, submit a Notification of Acquisition of Insured Person Status to the relevant pension office within five days of the date on which the conditions are met[4]. Missing this deadline may result in retroactive enrollment and additional premium assessments. It is essential to complete internal arrangements before the implementation date, including designating a person in charge of procedures, confirming the relevant notification forms, and ensuring system readiness.

4. Utilization of Career Advancement Subsidies

The MHLW has established the "Career Advancement Subsidy (Short-Hour Worker Working Hour Extension Support Course)" to support employers who newly enroll short-hour workers in social insurance and take measures to increase their income[5]. Under this course, employers can receive a subsidy of up to JPY 750,000 per worker. Submission and approval of a "Career Advancement Plan" to the competent prefectural Labour Bureau before commencing the relevant measures is a prerequisite for receiving the subsidy. We strongly recommend preparing well in advance.

5. Employee Communication and Promoting Understanding

[4] 4. MHLW "Career Advancement Subsidy (Short-Hour Worker Working Hour Extension Support Course)" Leaflet https://www.mhlw.go.jp/content/001684249.pdf

Enrollment in social insurance may initially feel to employees like a reduction in take-home pay, and many may feel anxious or resistant. However, from a long-term perspective, the practical benefits of enrolling in employees' insurance are substantial, including eligibility for sickness allowance and maternity allowance, and an increase in future pension payments. Employers should explain the significance of social insurance enrollment to employees in a clear and accessible manner and proceed with enrollment procedures in a way that employees can understand and accept, which is also important from the standpoint of preventing disputes.

Comparison Table: Key Impacts and Recommended Responses

No.	Section 3: Key Impacts on Businesses (Challenges)	Section 4: Recommended Responses
1	**Increase in employer social insurance premium burden** • Approx. JPY 154,000 additional annual burden per newly enrolled employee • Greater overall business impact where many part-time workers are employed	**Internal audit and financial impact assessment** • Identify employees working 20+ hours/week and confirm newly eligible employees • Use MHLW official simulator to estimate annual burden • Explore cost absorption measures (price adjustments, operational reviews, etc.) early
2	**Human resources management challenges** • Enrollment threshold shifts from "income level" to "20+ hours/week" — risk of employees capping working hours and worsening labor shortages • Risk of disputes over enrollment eligibility where contracts and actual practice diverge	**Review of work rules and employment contracts** • Clearly state the 20-hour standard in work rules • Reconcile and verify stated scheduled hours against actual practice • Consult a lawyer in advance where disadvantageous amendments are involved Employee communication and promoting understanding • Explain long-term benefits of social insurance in plain terms (pension increase, sickness/maternity allowances, etc.) Utilization of Career Advancement Subsidies • Subsidy of up to JPY 750,000 per worker for new enrollment • Advance submission and approval of Career Advancement Plan required
3	**Risk of delayed preparation for businesses currently outside scope** • Company-size requirement to be phased out from 2027; all businesses covered by October 2035 • Amending work rules and establishing enrollment procedures takes considerable time	**Advance preparation for social insurance enrollment procedures** • Designate a person in charge; confirm notification forms and system readiness • Submit Notification of Acquisition of Insured Person Status within 5 days of implementation date

Section 5 Conclusion

The abolition of the "1.06 million yen wall" represents a long-overdue response to the situation in which workers willing to work more have been compelled to adjust their hours in a context of worsening labor shortages. At the same time, from a business perspective, it directly translates into increased costs through higher insurance premium burdens, and the impact should not be underestimated.

What matters is to seize this reform as an opportunity to review your employment practices, work rules, and employment contracts, and to take steps toward establishing a compliant working environment. Please be aware that taking the easy route of unilaterally amending working conditions simply to avoid cost increases may instead expose your business to serious legal risks.

Our firm offers support tailored to your business circumstances across a broad range of matters, including reviewing and drafting work rules and employment contracts, providing advice on enrollment procedures, assisting with the preparation of explanatory materials for employees, and handling disputes if they arise. Please feel free to contact us to discuss your response to this reform.

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