

# Linking medical costs to GDP eyed

**Healthcare reform plan to limit spending opposed by medical lobby groups**

**F**ollowing the Liberal Democratic Party's resounding victory in the lower house election, the government's bid to reform the healthcare system will likely lean toward limiting costs by linking growth in overall medical spending to that of gross domestic product and other economic indicators.

This type of plan is advocated by the Council on Economic and Fiscal Policy — the government's policy-making panel — and the Ministry of Finance, while the Ministry of Health, Labor and Welfare opposes it.

At a news conference on Sept. 13, Finance Minister Sadakazu Tanigaki said, "Although medical spending plans have been trimmed in the process of setting ceilings for fiscal 2006 budget requests, there is room for further review." His remarks signaled the ministry's determination to reduce the healthcare budget below the ceiling agreed upon at a pre-election cabinet meeting.

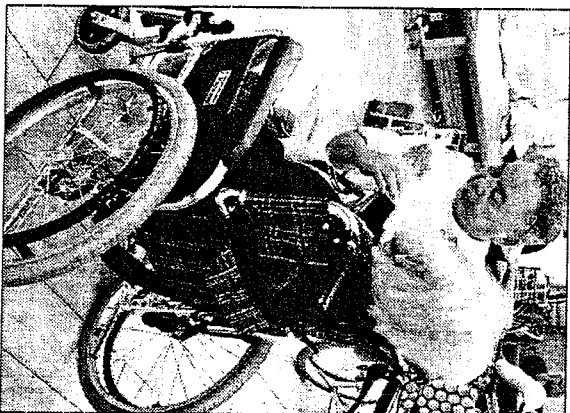
## Bad idea

Because Japan's medical spending rises at a constant 3% or so annually even during economic slowdowns, Welfare Minister Hideohisa Otsuji said, "Using economic indicators to control medical spending is not a realistic idea."

The issue is how to develop economic data adjusted for demographic changes, such as the aging population.

Private-sector members of the CIEFP have proposed reviewing the rate of increase every five years based on changes in "aging-adjusted GDP data."

The proposal sets a limit on growth



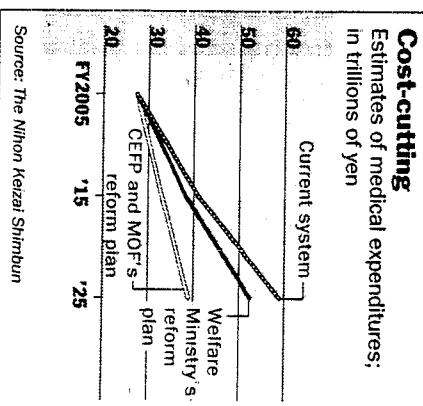
**To cope with an aging society, cutting costs in the healthcare system is urgent.**

in medical costs shouldered by patients at the nominal GDP growth rate, but in principle, it actually lessens their financial burden expand at a faster pace in light of Japan's rapidly aging society, an idea likely to be the focus of discussion.

If strictly applied, this approach could fuel concern that if medical spending expands faster than economic growth, it will be difficult for people to receive the care they need.

The proposed system needs to be flexibly adopted so its impact on people's lives and medical institutions can be minimized.

For example, it is possible that the system will be used as a way of verifying the effectiveness of cost-cutting measures.



ures proposed by the Welfare Ministry, such as those for preventing adult diseases and shortening hospital stays.

Worries that the aging population will constantly boost medical spending have prompted debate about healthcare reform, which has so far focused on which party should bear what portion of the financial burden.

The proposed system is a totally different attempt in that it seeks to limit medical spending within a range that reflects changes in economic growth.

Disagreement about the plan surfaced in the government ahead of the election, with the CIEFP and the MOF supporting the early introduction of the system, and the Welfare Ministry, politicians that represent special interests in the health and labor sectors, and the Japan Medical Association strongly opposing it.

Nothing happened before the poll because Prime Minister Junichiro Koizumi was concerned about the position of New Komeito, the LDP's junior coalition partner, which is against linking growth in medical spending to economic indicators.

The MOF subsequently refrained from introducing the proposed system in its ceiling for medical budget requests.

The ministry expects Koizumi to tackle the issue seriously once his signature legislation for postal privatization is enacted, so debate is likely to proceed toward year-end, when the fiscal 2006 budget will be compiled.

An official at the Welfare Ministry said, "If the prime minister thinks it necessary to integrally manage medical spending, using some indicator will be unavoidable."

Meanwhile, the Japan Medical Federation, a lobbying group for the Japan Medical Association, is concerned about its eroding political influence. "The prime minister may become more reluctant to listen to our views since we distanced ourselves from him in the election," a regional official said.

## Gov't plans to cut medical fees 2-5%

The government has finalized plans for fiscal 2006 to reduce by 2-5% the medical treatment fees paid to hospitals and other facilities under the national health insurance system, The Nihon Keizai Shimbun reported.

Medical treatment fees, which are revised about once every two years, reflect the government-mandated prices for tests, treatments, prescriptions and other services administered by doctors and pharmacies. The balance of fees represents the payments for drugs, as well as reimbursements to the healthcare facilities providing physicians' services.

The government-set prescription drug prices have been lowered nearly every time, but this will be only the second reduction for medical service reimbursements. They were lowered 1.3% in fiscal 2002.

According to Finance Ministry figures, a 5% cut in medical fees would lower the government's outlays to public insurance programs by about ¥400 billion. The savings represent about 4% of the ¥8.36 trillion the government has earmarked for medical costs.

## People to shoulder higher healthcare burden

When a 72-year-old resident of Kyoto received a notice of his fiscal 2005 premium payments for the national health insurance plan in early June, he was stunned by the figure — it was more than ¥200,000, roughly double the amount he paid the previous year.

Starting in the current fiscal year.

### Widening gap

Medical expenditures and insurance, individual burden by age group, per person, in thousands of yen

35-39

Medical expenditure

Insurance

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Starting in the current fiscal year, the city of Kyoto changed the method of calculating premiums to increase the burden on households not subject to residential taxes.

Because this change saddled pensioners — most of whom reside in the municipality exempt from residential taxes — with a 100-200% increase in premium payments from fiscal 2004, senior citizens crowded the city hall to get an explanation about why their premiums had surged so high.

The municipality explained that since the finances of the national health insurance plan are on the verge of collapse, it has no choice but to ask a broad range of people to share the financial burden.

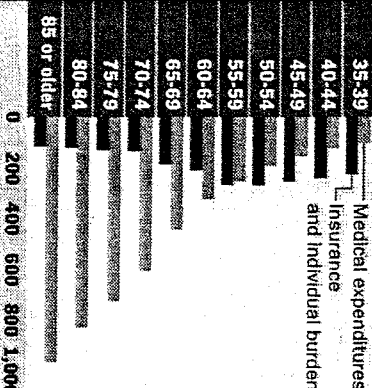
There are 3,144 different national health insurance schemes run by cities, towns and villages across the country, about 70% of which bled red ink in fiscal 2003.

## Shell game

In the past, Kyoto offset the losses from its health insurance program with ¥15 billion transferred from its general account. Although national insurance plans are designed essentially to finance medical expenditures with premiums paid by the insured, the city failed to curb medical spending and continued to rely on tax revenues to cushion the "pain" of participants in the plan. This practice

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Medical expenditures and insurance, individual burden by age group, per person, in thousands of yen



Estimates for fiscal 2000  
Source: The Nihon Keizai Shimbun

ultimately came to hurt pensioners.

To stabilize the financial condition of municipalities, the Welfare Ministry has broached, as the major focus of discussion about medical care reform, a broader reorganization plan calling for integrating several health insurance plans operated by neighboring municipalities. However, the municipalities will not be able to ride out this period of financial hardship unless they overhaul the structure of their money-losing health insurance systems by introducing fiscal discipline.

To rebuild Japan's healthcare system into a sustainable one in the face of the aging society, the elderly will be

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required to bear heavier financial obligations. At the central government level, however, both ruling coalition parties, the LDP and New Komeito, failed to set forth a clear picture of medical reform in their election manifestos and promised only to build an enduring medical insurance system — a topic barely talked about during their campaigns for the lower house.

But if the government asked people to pay a greater share of their medical expenses soon after an election, it would likely provoke a public outcry.

## Pricey seniors

Medical spending has grown some ¥1 trillion annually due to the aging population, and the annual expenditure is expected to balloon to ¥70 trillion in fiscal 2025, which is more than double the current expenditure because of the aging of society. The burden on younger generations will grow heavier to underpin an insurance system plagued by swelling medical costs.

The Welfare Ministry is considering requiring elderly patients who are hospitalized for long periods to pay for their own meals and ward bills and raising medical fees paid by outpatients age 70 or older who have higher than average incomes.

Kenji Yumoto, head of the research division at Japan Research Institute, said, "Prime Minister Koizumi won a decisive election victory, but he recognizes that he has to be cautious about asking people to bear higher financial costs." His election strategy, which focused on postal reform, may prove to be an obstacle to progress in medical reform.

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## Social security payouts hit ¥84 tln

Spending on social security reached an all-time high of ¥84.26 trillion in fiscal 2003. The expenditure comprises benefit payouts under pension, medical and nursing care, and other social security programs.

According to a report released on Sept. 21, the ratio of benefits for elderly people surpassed 70% of all social security spending for the first time since the National Institute of Population and Social Security Research, an organ under the Welfare Ministry, began to track the data in 1951.

Payments for senior citizens increased 1.5% from the previous year to ¥59.31 trillion, a result that is likely to stoke public debate on a proposed plan to set up a separate medical insurance program for older people, observers said.

Payments for child care and handicapped family care benefits reached ¥3.16 trillion, only accounting for 3.8% of the total payments.