

# Japan's Healthcare System and Its Outlook

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# Executive Summary

**A participation to public insurance system is mandatory to all residents in Japan. The prices of medical treatment and subscribed pills are regulated under the fee-for-service system. Patients directly pay 10-30% of the services they receive while insurers pay the reminder.**

**The quality of the healthcare in Japan is considered to be high. Japan boost one of the longest life expectancy and one of the lowest infant mortality. At the same time, the system has been cost effective. Despite the recent rise, the per capita healthcare expenditure is below OECD average.**

**However, its medical expenditure is growing fast in recent years. The total cost of public healthcare has risen from 4.9% of GDP in 1984 to 9.9% of GDP in 2011. A government study estimates that the cost will further rise by 3% to GDP by 2025, mostly due to the demographic change.**

**While reforms are underway to restrain the rise, a rise of 2% to GDP seems inevitable, in our view.**

**Overview**

**Outlook**

**Reform Measures under discussion**

# Healthcare system in Japan

**The healthcare system in Japan is characterized by two principles:**

## **100% public insurance coverage**

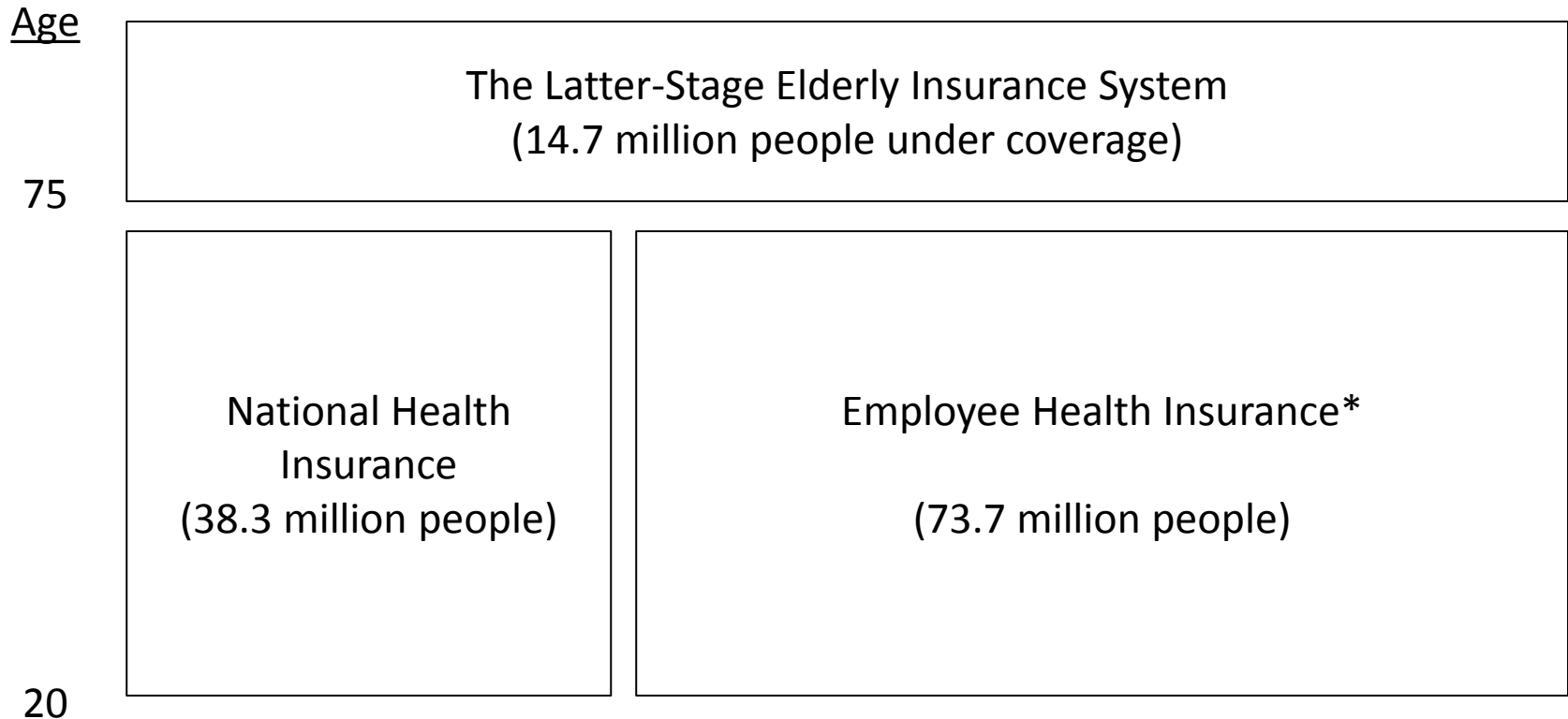
- All residents and below must join one of the two public insurance systems regardless of whether or not they have private health insurance.

## **Fee-for-Service.**

- In principle, all medical treatments and pills are covered under the public insurance system. Patients pay portion of treatments and medicines (10-30% depending on age), and the rest is paid directly to medical service providers by the insurers. There is a cap on patient's burden in all insurance systems – patients can seek reimbursement for payment above the cap.
- Fees are regulated. The government has a control over what is deemed as medical treatment and their fees .

# Japanese Public Insurance System

There are three category in the public insurance system: The elderly over the age of 75 is covered under a universal insurance. For working age and below, they need to subscribe to either National Insurance, if they are self employed, or Employee's Health Insurance, if they are employed.



# Japanese Public Insurance System

**There are two public insurance systems for the working age: National Health Insurance and Employee's Health Insurance.**

## **Employee's Health Insurance**

- Employers deduct insurance premium from salaries of their employees, match them, and pay the whole premium to insurers.
- Corporations and industry associations build health insurance insures.

## **National Health Insurance**

- Self-employed, non-salary workers, non-workers are covered by the National Insurance.

# Separate System for the Elder

**In 2008, “Medical Care System for the Latter-Stage Elderly” was established for medical needs for those Age 75+.**

- Those age 75 and above will pay 10% of fees for medical services, while their premium is automatically deducted from the pension money they receive from the government.
- Additional premium paid by those between Age 65 to 74 will be set aside by insurers for the Age 75 and above. EHI and NHI also pay some money annually to Age 75+.
- In principle, summarizing, 50% is be funded by the national government, 10% by the elderly, and 40% by the working age population.

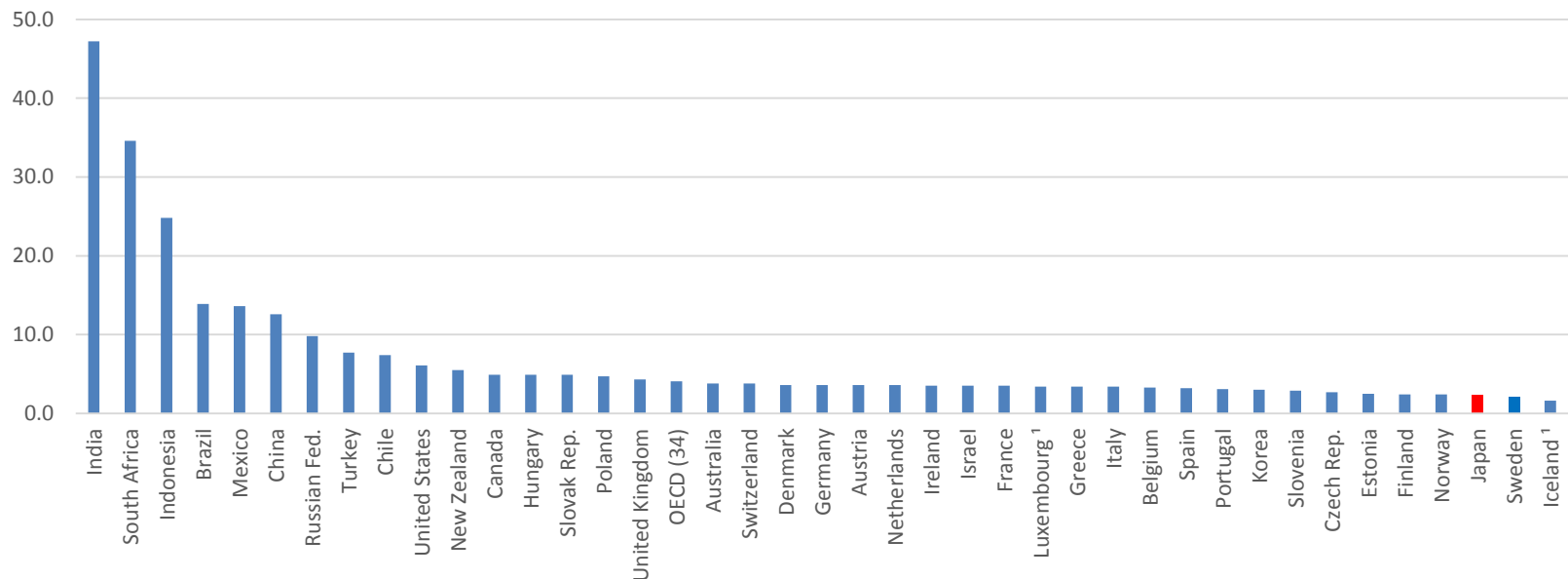
**A measure to levy additional insurance premium for high income earning elderly is under consideration.**

- This change for the elderly could raise 230 billion yen for the public insurance system.

# Infant Mortality Rate

Quality of Japan's healthcare is Japan's Infant mortality rate is one of the lowest in the world, 2.3 per 1000 live births.

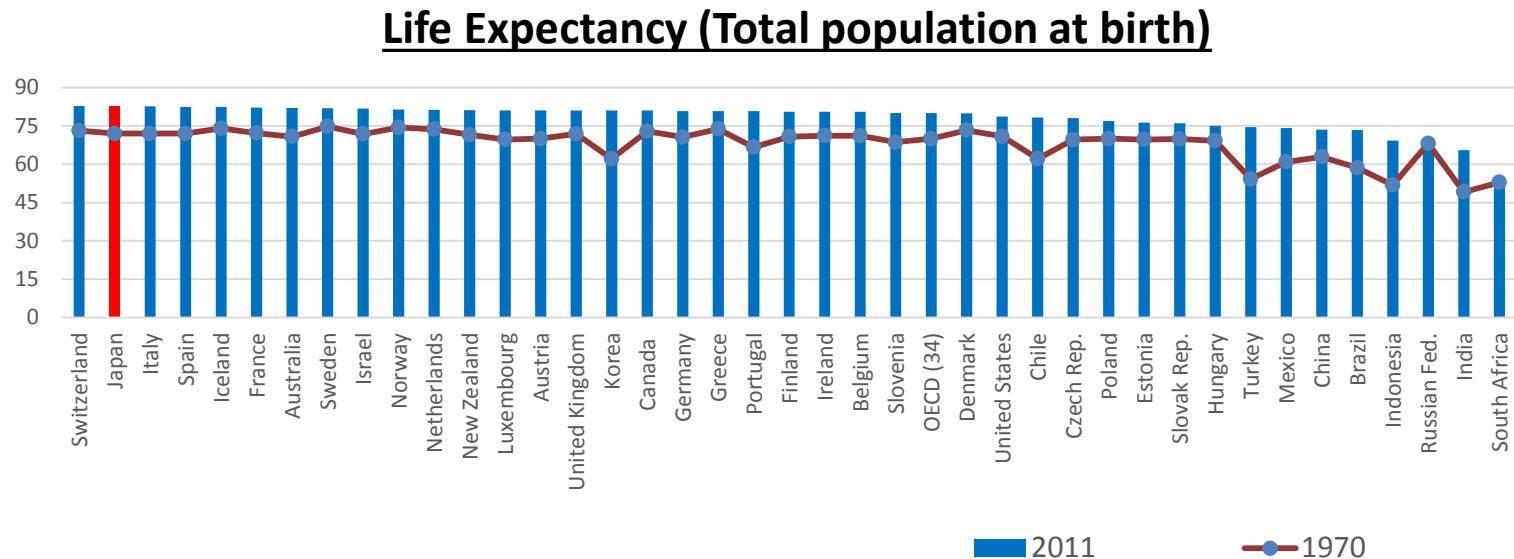
## Infant Mortality Rate (deaths per 1000 live births)





# Life Expectancy at Birth

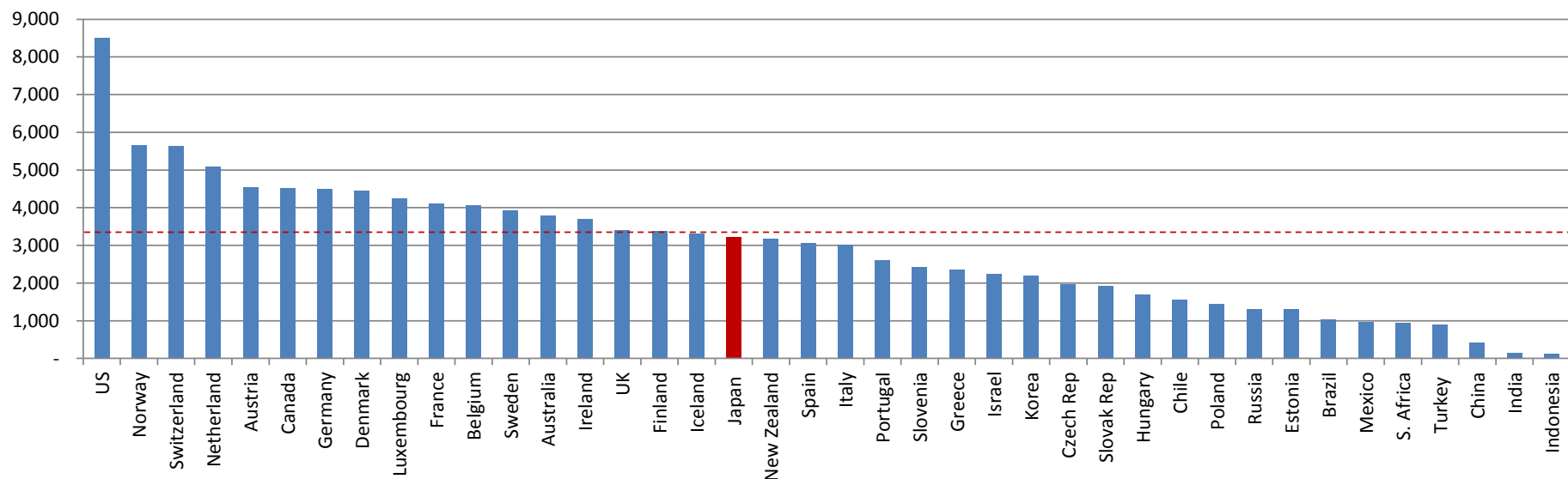
Japan's life expectancy is one of the longest in the world. It rose to 83 years approx. in 2011 from 72 years in 1970.



# Health Expenditure

Japan's health care system seem cost-effective. Its healthcare expenditure per capita is USD 3,213 (purchase power parity), slightly below the OECD average of USD 3,322.

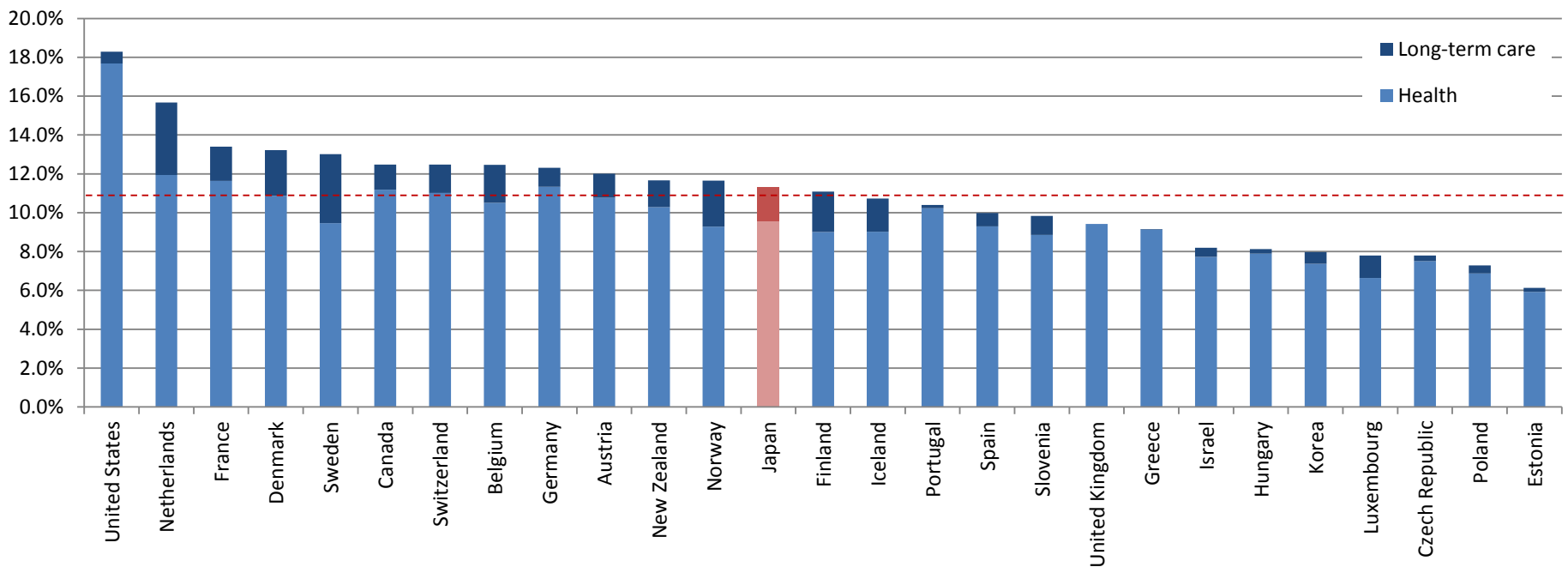
## Health Expenditure Per Capita, 2011 (or nearest year)



# Health Expenditure

In terms of % GDP, Japan is on a par with the OECD average.  
(health and long term care combined)

## Health Expenditure as % GDP, 2011 (or nearest year)



**Current Status**

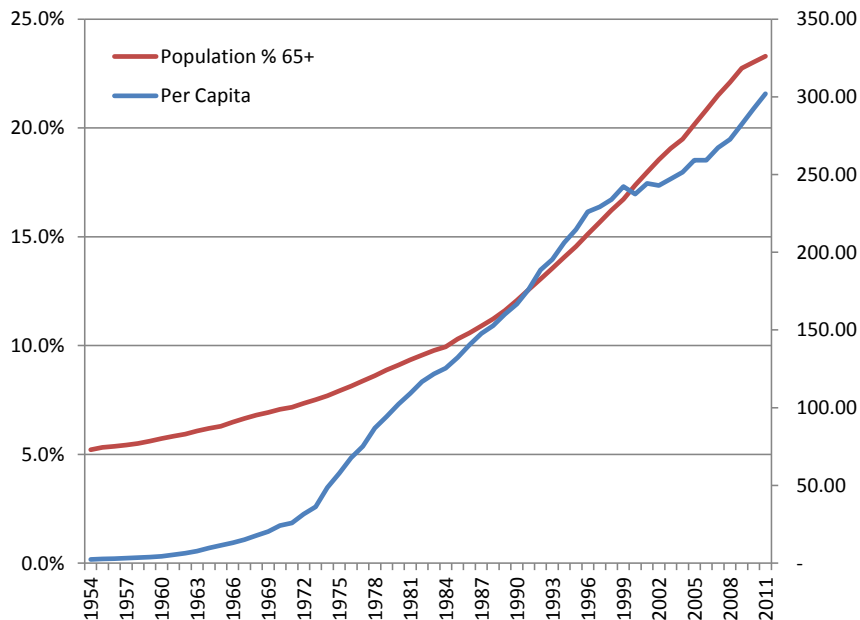
**Outlook**

**Measures**

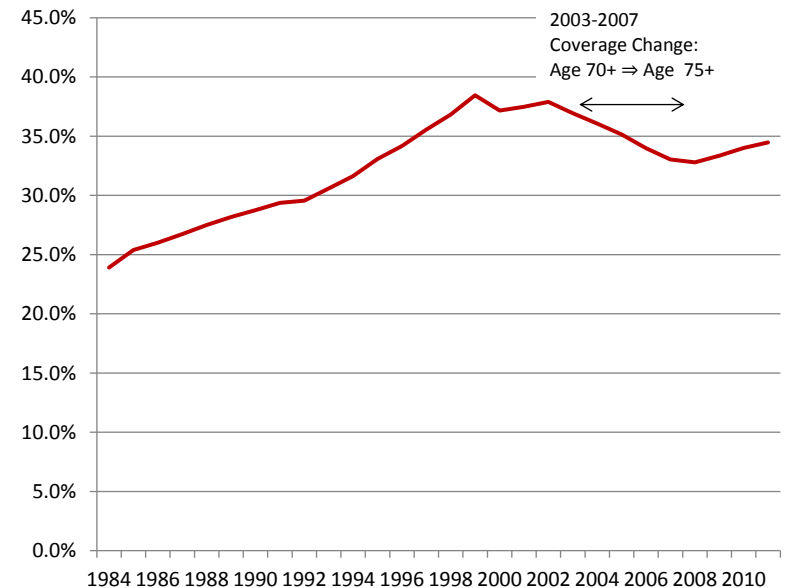
# Medical Expenditure Growth

The per capita medical expenditure is increasing as the society ages. Despite the narrower coverage after 2007, the medical expenditure for the elderly continues to raise as a portion of the total expenditure.

**Health Expenditure Per Capita and  
% Age 65+ Population**



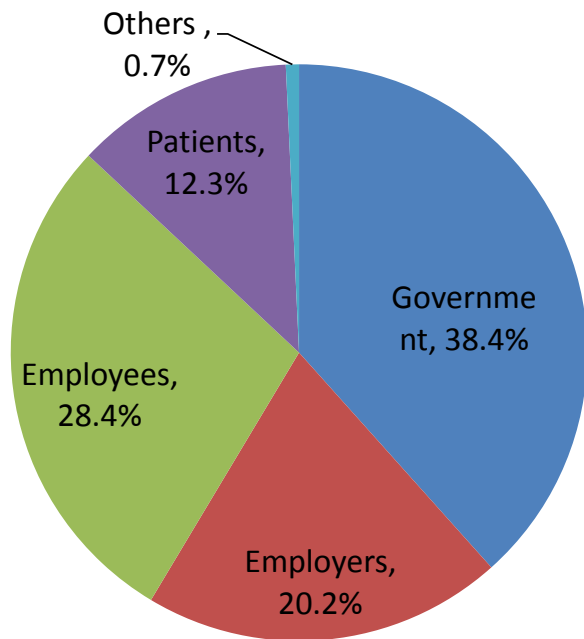
**Health Expenditure Used by the Elderly (%)**



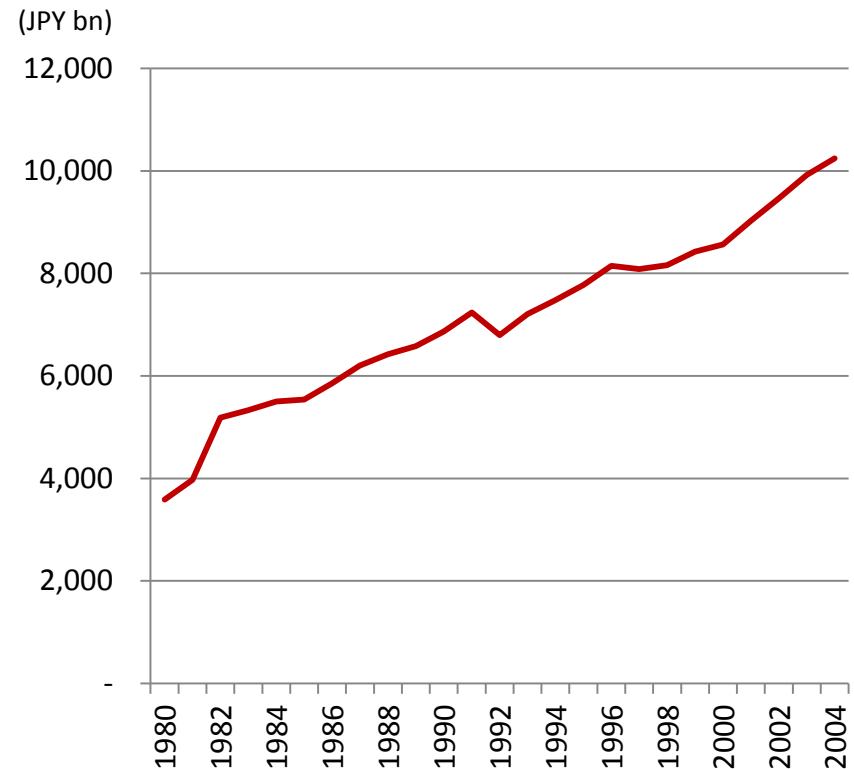
# Healthcare Expenditure

Currently, the government pays approximately 40% of the medical expenditure. Their burden is expected to continue increasing as the total expenditure grows.

## Medical Expenditure by Payers\*



## Payment by the National Government\*\*



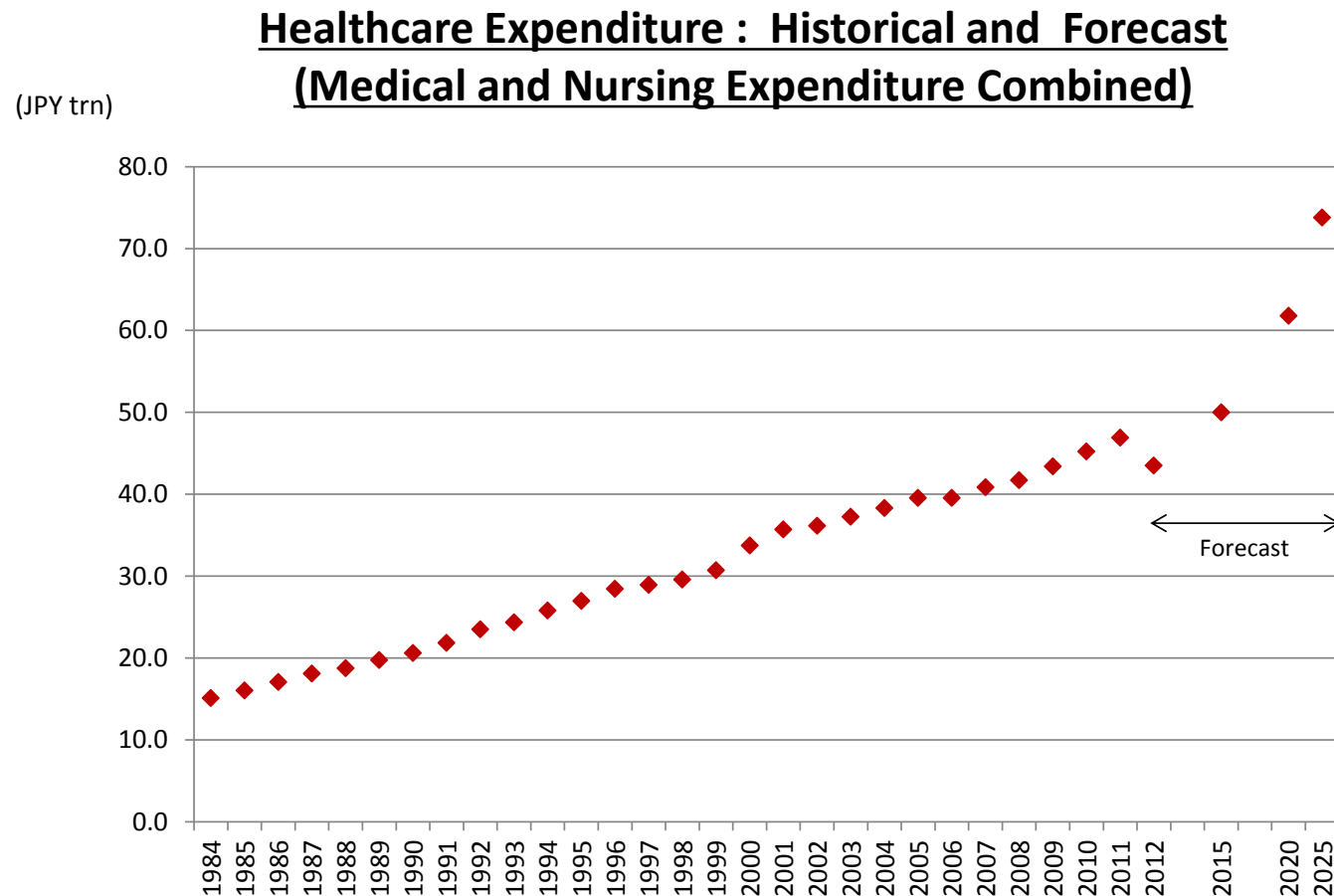
Source: Ministry of Health, Labour and Welfare.

\*Data is for FY2011.

\*\* From [White Paper 2013]

# Healthcare Expenditure Forecast

Japan's healthcare expenditure (medical and long term care combined) has been increasing.



# Healthcare Expenditure Forecast

The healthcare expenditure (medical plus nursing) is expected to increase both in nominal numbers and as a percentage of GDP. 40% of the increase (in amount) is from nursing.

## Healthcare Expenditure: Historical and Forecast (Medical and Nursing Expenditure Combined)

(JPY trn)

	<u>2011</u>	<u>2012</u>	<u>2015</u>	<u>2020</u>	<u>2025</u>
GDP	484.0	479.6	509.8	558.0	610.6
Medical Expenditure	39.0	35.1	39.5	46.9	54.0
Elderly Nursing Expenditure	9.0	8.4	10.5	14.9	19.8
Total as % GDP	9.9%	9.1%	9.8%	11.1%	12.1%



# Healthcare Expenditure Forecast

Even if only the cost-cutting measures are taken, the total expenditure is expected to increase by 1.5% of GDP.

## Healthcare Expenditure: Historical and Forecast (Medical and Nursing Expenditure Combined)

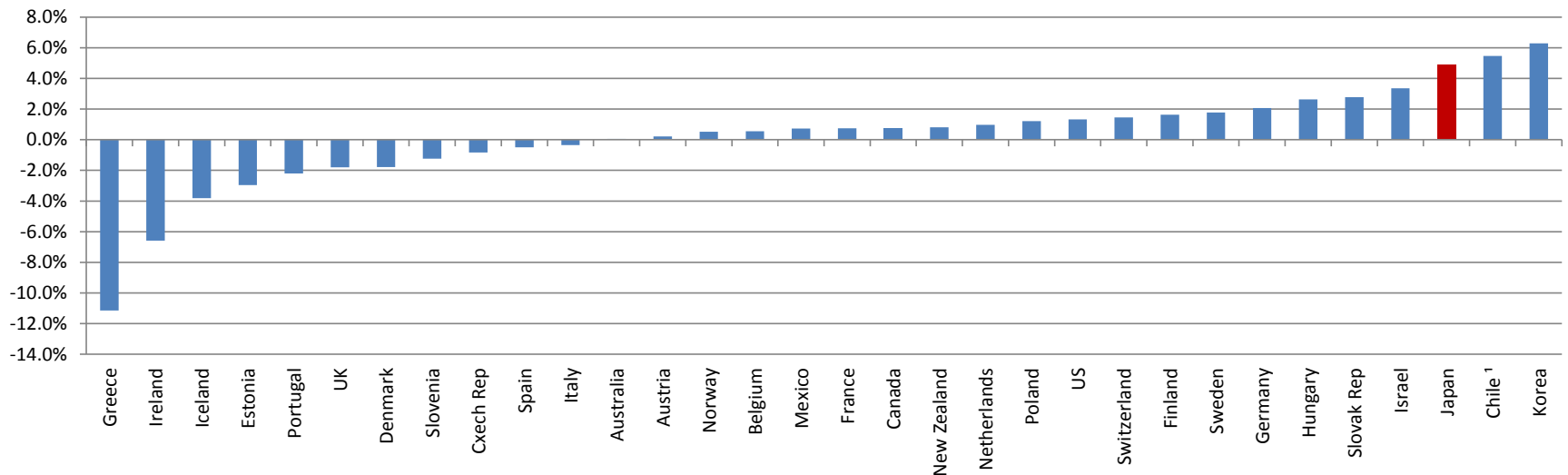
(JPY trn)

	2015		<i>Impact as % of GDP</i>	2025		<i>Impact as % of GDP</i>
	<u>As Is</u>	<u>Reformed</u>		<u>As Is</u>	<u>Reformed</u>	
Health Expenditure	39.1	39.5		53.3	54.0	
Elderly Nursing Expenditure	9.9	10.5		16.4	19.8	
<b>Impact of Reform</b>		<b>1.0</b>	<b>0.2%</b>		<b>4.10</b>	<b>0.7%</b>
<+>			0.5%			2.1%
Improving in-hospital care		1.5			6.5	
Transferring in-hospital patients to out-hospital		0.3			1.1	
Improving nursing care		0.9			5.3	
<->			-0.3%			-1.4%
Shortening in-hospital stay	-	1.1		-	5.9	
Decreasing hospital visits	-	0.3		-	1.5	
Increasing home-care	-	0.2		-	0.8	
Prevention	-	0.1		-	0.6	

# Medical Expenditure Growth

The speed of Japan's health expenditure increase outpaces other countries.

## Annual Average Growth Rate of Per Capita Health Expenditure 2000-2011



**Current Status**

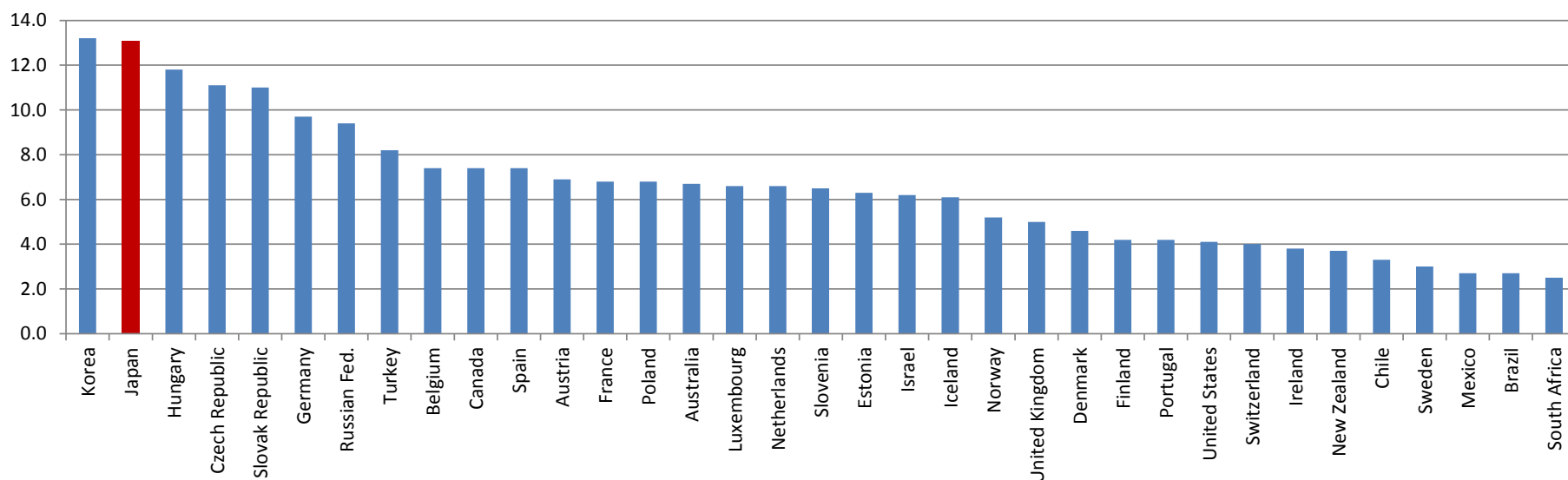
**Outlook**

**Measures**

# Deterrence of Unnecessary Access

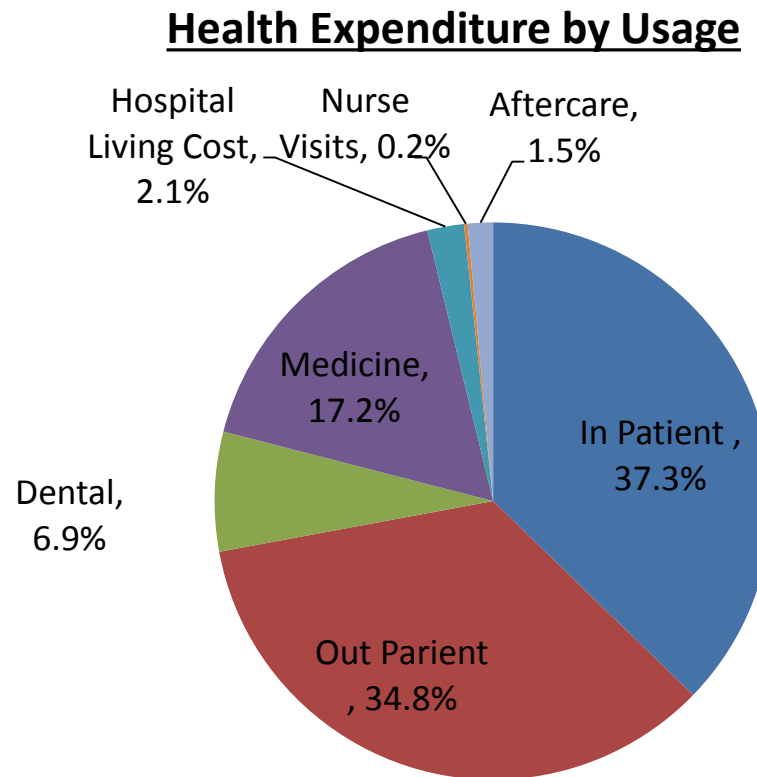
On average, a Japanese visits doctors 13 times per year. Introduction of general practitioners (GPs) as gatekeeper may be able to reduce the burden of doctors, and hence decrease the total number of visits.

## Number of Annual Doctor Consultation Per Capita 2011



# Deterrence of Unnecessary Access

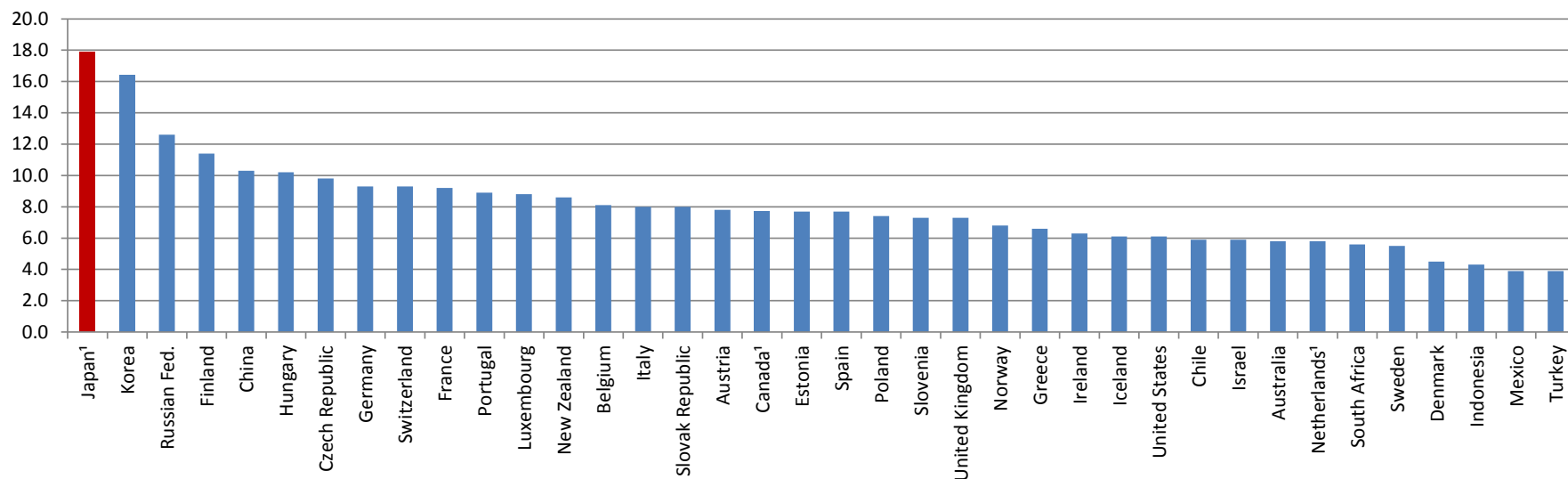
Approximately 70% is spent on services at hospitals and clinic.



# Deterrence of Unnecessary Access

Japanese in-patients tend to stay in hospitals for a longer period of time than those in other OECD countries. If then can stay at home under care of local community and practitioners, the expenditure may decrease.

## Average Length of Stay in Hospital 2011



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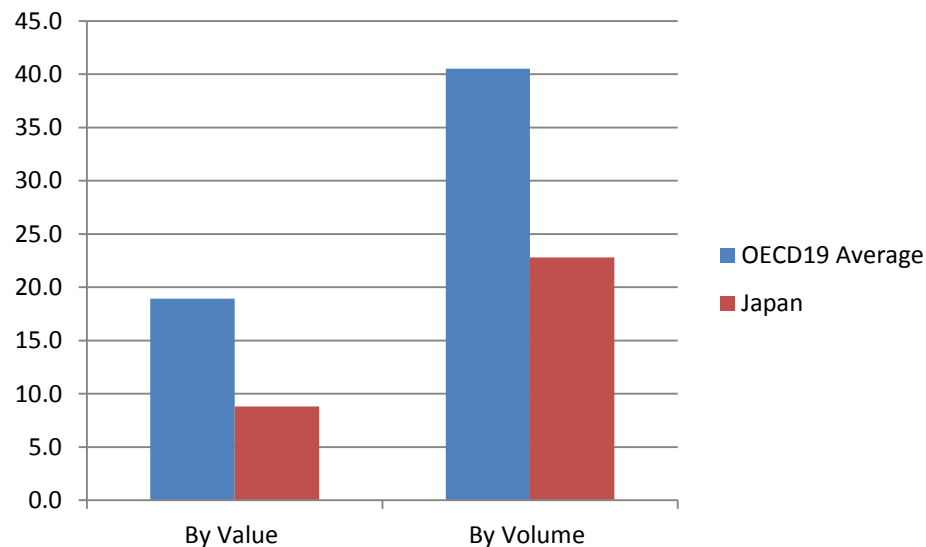
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# Generics and Prevention

More use of generics will help Japan contain medical costs. Generics use in Japan is about half of the OECD average in value and volume. Prevention is also likely to help minimize the number of patients with adult diseases that require frequent and continuous services.

## Share of Generics in Total Pharmaceutical Market 2011





# Mixed Treatment

**Patients may become allowed to be treated under the insurance and out of their own pocket simultaneously. This will increase the welfare of patients by choice, while this may potentially save the government some money.**

- The original plan was to allow mixed treatment so that patients of difficult disease will have more options. However, recently, the ministry is showing unwillingness to allow it.
- As a compromise, it is likely that a new rule will be set up regarding the mixed treatment.
  - Written proposal describing different treatment options for patients must be submitted by doctors to patients.
  - Medical moral hazard (i.e. doctors suggesting unnecessary treatments) must be avoided.

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