

## Japan's Healthcare System: Overview

Japan's healthcare system is characterized by (1) universal public insurance coverage and (2) fee-for-service. Participation to public insurance system is mandatory for all residents. Patients are in principle given free access to doctors and specialists of their choice. Prices for treatment and subscribed pills are determined in accordance with a national guideline. Most of the established healthcare practices and medications are covered under the health insurance with only a few exceptions. When patients receive consultations and treatments, patients under the age of 75 years old pay 30% of the fees and insurers pay the rest. Patients' burden are reduced to 10% for those over 75 years of age.

Under this system, Japan has managed to provide reasonably high standard of healthcare. Life expectancy at birth is at 83, one of the top among OECD countries, and infant mortality is 2.3 per 1,000, one of the lowest. Japan's health care system is also said to be cost-effective in aggregate; its per capita expenditure USD 3,213) is on par with the average of developed countries (USD 3,322). As of 2011, the total cost of public healthcare, including nursing care, is equivalent to 9.9% of GDP.

### Outlook: Rising cost of Healthcare

However, per capita health expenditure has been growing fast in recent years. The total public healthcare cost has already risen from 4.9% of GDP in 1984 to 9.9% of GDP by 2011. According to a government study, the cost is further expected to rise by another 3% point to GDP by 2025. The biggest driver of the rising cost is the aging of the Japanese society. The population over the age of 65 accounted for 10% of the total population in 1984. The ratio has risen to 23% in 2011 and is expected to rise to 30 % by 2025. The elder spends 4.1 times more on health care than the working population. Currently, in aggregate, more than half of the health expenditure is spent by Age 65+. In addition, there is an increasing need for long-term nursing care, which represents approximately 40% the expected increase in healthcare between 2011 to 2025.

### Reform Measures under discussion

Currently the government is proposing various measures to contain health and nursing expenditure and to make the

health insurance system sustainable. Major items are, *Deterrence of Unnecessary Access*: The government is trying to eliminate unnecessary visits to doctors and specialists. Japanese visit doctors on average 13 times per year, the highest of OECD. The government is also trying to encourage shortening in-hospital stays. Approximately 40% of the health expenditure is spent on in-hospital treatment, and the Japanese average length of hospital stay is the longest among OECD.

*Generics and Prevention*: More use of generics will help the nation 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 (i.e., diabetes) that require frequent and continuous services.

*The Elder*: People Age 75+ (basically the retired) has a separate health insurance system from the ones for the working population. When the insured reach Age 65, they will start paying separate premiums. Currently, the government bears 50% of the elderly health insurance payment, so that the elder pay only 10% of the services. However, it is proposed to make the elderly pay as they earn/have in the health insurance premium, services, and nursing care costs.

*High Income Earners*: The government attempts to make people with higher income pay more insurance premium and service fees (such as those under the high-cost medical expenses system), while they widen the safety net for the lower-income people. Some advanced treatments and technologies can be exceptions for health insurance, so that those that can afford can use at their own expense.

*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.

### Summary

Japan's health expenditure is expected to rise as the society ages, while the nation aims at maintaining access, equity and quality, if it's not to improving. While measures to improve the quality and access are welcome as they increase welfare, Japan needs first to ensure the sustainability of its healthcare system. Even if Japan succeeds in implementing all cost efficiency reforms, we expect the healthcare cost to rise from 9.9% to GDP in 2011 to 12% to GDP by 2025. This rise in healthcare cost will add further strain to already tight fiscal condition in Japan.