



# Reform of the Health Care System in Japan

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# Social Security Benefit Costs Have Decreased with Social Security Reforms.

- With 2004 pension reform, reduction of 2.1% points (19.2%) as percentage of GDP
- With 2005 long-term care insurance reform, reduction of 0.5% points (17.9%)
- With 2006 health care system reforms, reduction of 1.7% points (20.5%). However, about 2/3 of that is due to an increase in income from last estimate.

(% of GDP)

## May 2002 Estimates

	2002	2010	2025
Social Security Benefit Costs	16.26%	19.23%	22.87%
Pension	8.73%	10.14%	10.92%
Health care	5.16%	6.12%	7.80%
Welfare, etc.	2.38%	2.97%	4.16%
Of which, long-term care	0.99%	1.40%	2.60%

## May 2004 Estimates

	2004	2010	2025
Social Security Benefit Costs	17.01%	18.36%	20.96%
Pension	9.10%	9.27%	<b>8.82%</b>
Health care	5.14%	5.94%	8.13%
Welfare, etc.	2.77%	3.15%	4.14%
Of which, long-term care	0.99%	1.57%	2.62%

## Author Estimates based on Dec. 2004 Estimates

Of which, long-term care	1.34%	<b>2.15%</b>
<b>Jan. 2006 Estimates</b>		
Health care	5.42%	<b>6.47%</b>

(The Ministry of Health, Labour and Welfare (MHLW) does not issue percentage-of-GDP estimates. The estimates in the chart to the right were made by the author based on MHLW materials [except for Jan. 2006 estimates].)

# To What Degree Can the Costs of Health Care Benefits Be Contained?

- As a way to reduce health care expenses, we must emphasize prevention and eliminate waste based on an evaluation of health care quality. Society will continue to age so total costs (as percentage of income) are expected to increase nonetheless (this will continue until the 2060s according to current population estimates).
- The cutting of health care costs to the point where it incurs a decline in quality that endangers life cannot be tolerated. The government's current policy is to narrow the range of social insurance benefits so that fiscal expenditure does not increase (or so that the increase is contained).
- The fiscal burden will decrease, but the burden on patients will increase and the diversification of risk through insurance will weaken.
- Japan's health insurance system is highly praised for its universal coverage and free access to medical institutions. The shortcoming, however, is the high level of out-of-pocket payments.
- It is hard to judge if the increase of the burden on the elderly in the current reform is right or not in the trade-off between containing benefits and ensuring the functioning of insurance.
- Careful consideration is required to determine whether measures that increase the burden on patients, including the introduction of insurance with a deductible, are feasible.

# What Can Be Accomplished by Narrowing the Range of Benefits?

- Pension benefits have successfully been contained by fixing the burden level (although problems may arise when benefits are actually reduced). Some think that the same measure should be used for health care and long-term care.
- Narrowing social insurance to decrease future burdens and benefits does not resolve the inter-generational inequality. It lead to the decline in the role of social security for future generations.
- If there is no change in the risk, future generations will have to handle their own old age at their own responsibility. This is fine if the policy of “leave to the private sector what it can do” is in place, but there will be problems for people who do not prepare for old age.

# Pre-Funding System: One Way to Secure the Financial Resources

- If a pre-funding (compulsory savings) social insurance is made an alternative, the significance of narrowing the range of benefits is apparent.
  - A pre-funding system (compulsory savings) ensures that the Japanese people prepare against the risk of old age.
  - The current reform is heading in the direction of making preparation against the risk of old age the responsibility of the individual.
- The pre-funding system is not a panacea as it faces operational as well as health care and long-term care expense risks; however the pay-as-you-go system (intergenerational transfer of income) faces the population risk. Combined use of the two systems is desirable.
- We should consider securing the functioning of social insurance by introducing a pre-funding pension (it can either be operated by the successor organization of the Social Insurance Agency or set it up as a kind of Japan-style 401k) in which (a portion of) elderly health and long-term care insurance premiums are withheld.
- A pre-funding system will reduce the inequality in the inter-generational burden.

# Burden Is Leveled with Pre-Funding System

*(from paper to be delivered tomorrow)*

Figure 4: Lifetime Burden Rates under Policy A (Balanced Budget) and Policy B (Pre-Funding)

