Japan's Medical and Long-Term Care (LTC) Insurance System

One percentage point of the sales tax should be used directly to help sustain elderly medical and LTC service systems

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The pace of government efforts to reform the medical and LTC insurance systems appears to be slow when compared with that of the nation's pension program. The government should scale back benefit expenditure while ensuring a further stable revenue source for social security at the same time.

In response to prevailing demands, which call for sustainability in medical and LTC services, the social security system must be constantly reviewed and adjusted in a flexible manner in order to control benefit expenditure by limiting the scope of the social benefits provided while imposing stringent eligibility requirements. It is quite difficult to forecast gross benefit expenditure over the long term because the nation's medical and LTC insurance systems are generally run on a single annual budget principle, and they are easily influenced depending on the degree of epidemic disease and progress in medical technologies, unlike the benefit expenditure of the pension program, which can be forecast based on such assumptions as a possible demographic change within a certain period of time. For that reason, the systems will only be able to provide for future needs through continual adjustments being made to both benefits received and premiums paid.

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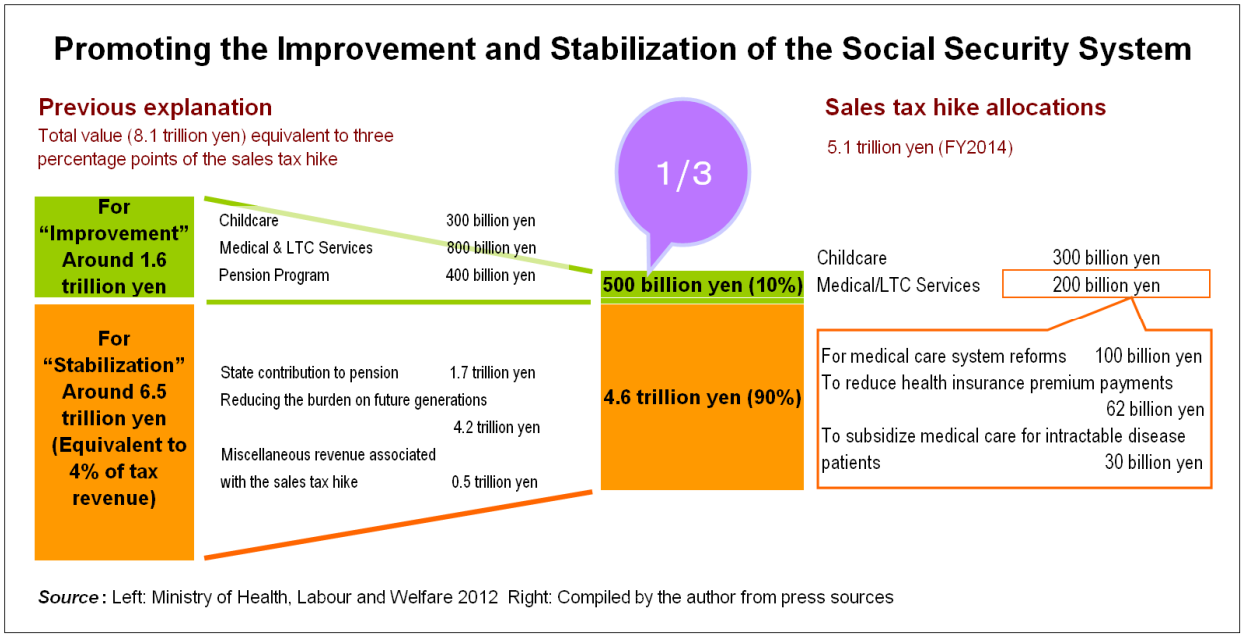
Notwithstanding this, in a series of comprehensive efforts to reform the social security and taxation systems undertaken to date, reforms of the medical and nursing care programs have yet to be embodied as a specific draft bill, leaving the issue for discussions by the National Council on Social Security System Reform.

Meanwhile, the government panel appears to be indecisive about the issue in its report released in August 2013, emphasizing the troubled condition of the systems while pointing out the need to finance the systems with the help of the expected sales tax hike, along with listing reform items that are seemingly realizable. From this report, the panel sounds as if it realized, after a series of discussions, that the system would be expensive just to maintain in its present framework, not to mention enhancing it, and concluded that if the present system was maintained without being adjusted, the financing provided by the expected sales tax hike would be used up sooner or later.

Indeed, there is an immediate need for budgetary support to be provided to ensure the stability of the medical and LTC systems, and that is reflected in the proposed allocations of the tax revenue increase to be brought about by the expected sales tax hike.

Allocations of the increase in sales tax revenue are divided into two categories: (1) a "Stabilization" category pertaining to those tax revenues to be allocated to finance the increased state contribution in the basic pension as well as the expanding benefit expenditure associated with the aging population, both aiming to assure the stable management of the overall social security system; and (2) a category of allocations to be used for assuring "Improvement" in the social security system (see the Exhibit on this page). Previously, in the course of debating the comprehensive reform of the social security and taxation systems, spending on "Stabilization" and "Improvement" was in the ratio of 4:1 in the total allocated revenue funded by the sales tax hike. By contrast, in the FY2014 budget recently released by the government, it is in the ratio of 9:1, meaning that the allocation ratio for the "Improvement" spending has been reduced significantly.



Source: Left: Ministry of Health, Labour and Welfare 2012 Right: Compiled by the author from press sources

However, it is quite obvious that Japan's medical and nursing care insurance systems will reach a deadlock if the government continues implementing stopgap measures to reform the systems. According to the estimates released by the Ministry of Finance for FY2025, when the baby-boomer generation will turn seventy-five years of age, the nation's medical care expenditure should rise to 54 trillion yen, 1.54 times the level for FY2012 (35.1 trillion yen), with nursing care expenditure exploding to 19.8 trillion yen, 2.36 times higher than its level of 8.4 trillion yen for FY2012. This suggests that cutbacks of social security benefits together with essential premium hikes are inevitable.

Where should we begin to reform the system? To answer this question, I would like to explore some of the specific measures for cutting back on benefit expenditure by summarizing the arguments presented to date.

Increasing cost sharing by the elderly

Cutbacks of medical and LTC insurance benefits coupled with increased beneficiary liability have been hot issues on the agenda from the perspectives of the "prioritization and effectiveness" of benefits, following discussions on the comprehensive reform of the social security and taxation systems. This initiative is two-pronged, i.e. (1) a "Service" oriented approach with the aim of prioritizing the benefits to be provided by

realigning as well as redefining the benefit contents and framework for the medical and nursing care systems, and (2) a "Burden-sharing" approach with the aim of essentially increasing cost-sharing by the people who can afford to accept it (see the Table). Both of these approaches are designed to assure a fair benefit program, assuming that some of the benefits are overpaid or redundant.

Table: Prioritization & Efficiency Improvement Plans for the Social Security System (partially excerpted)

	Item	Specific example
Medical/ LTC Service System	1. Improve efficiency in medical care services	To reduce the duration of hospitalization (discharge as soon as the operation or intensive care with medication is completed).
	2. Reassess the need for outpatient benefits	To raise the first consultation fee for outpatients visiting a large hospital without a referral form (patients are urged to consult their local general practitioner first, no matter what the situation).
	3. Reassess the need for hospitalization-related benefits	Patients will make full payment for the hospital diet that is provided while they are hospitalized.
	4. Reassess the need for preventive nursing care services	Localization of preventive nursing care services (empowering municipalities to decide for themselves on the issue of providing services, not as vested benefits pertaining to LTC services).
	5. Limit special elderly nursing home residents	To make the eligibility requirement stricter, limiting to LTC need certification level 3 or higher (legalize operating rules being practiced in reality).
"Burden-sharing" approach	6. Introduce an income-based burden-sharing system to finance LTC services provided for people aged 75 or over	Full introduction of an income-based burden-sharing concept to the employee payroll system.
	7. Reassess the need for state subsidies to highly profitable national health insurance associations	Reduce subsidies to highly profitable national health insurance associations like the ones for practitioners.
	8. Raise the medical fee copayment by people aged 70 to 74	Change the copayment rate back to the statutory 20% from the provisional 10% (meaning an essential hike).
	9. Change copayment by high-income earners using LTC services	Raise the copayment rate from 10% to 20%.
	10. Reassess the need for LTC supplementary services	Strict eligibility requirements are being considered for those people in upper income brackets or those with a certain amount of bank savings and deposits or assets.

***Source*:** Compiled by the author from materials released by the Ministry of Finance

To be more specific, a "Service" oriented approach intends to make the present system stricter by allowing patients or LTC service users to receive minimal benefits only when they are in immediate need of such social security services.

A "Burden-sharing" approach includes some noteworthy points, i.e. increased cost-sharing by elderly people, in particular. Two major reassessments of premium payments – medical cost-sharing by people aged 70 to 74 (refer to item 8 in the table), and LTC service cost-sharing by elderly people in the upper income brackets (refer to item 9) – could be interpreted as a strategic move leading up to the planned 20% copayment scheme for medical care services for people aged 75 and over as well as for LTC services, which will be discussed later on. For LTC supplementary services (subsidies for meals served in nursing homes and for daily rates), strict eligibility requirements are being considered for those people in upper income brackets or those with a certain amount of bank savings and deposits or assets such as real estate (refer to item 10). These measures could be effective in the short term, while serving as a possible solution to control benefit expenditure in the future.

LTC service users to be required to cover 20% of medical fees across the board

Where can we begin to proceed with redefining the scope of benefits by balancing benefit cutbacks with the higher premiums paid by service users? In terms of burden sharing, a hike in payments by LTC service users to 20% of total costs (from the present 10%) is currently being examined by the Subcommittee on Long-term Care and Benefits of the Social Security Council in preparation for submitting a revised bill on the LTC Insurance Act next year. Those LTC service users with an annual per capita income of 2.8 million yen or higher will be subject to this statutory hike. In reality, only around 20% of people aged 65 or over will be affected by the change. On top of that, the main purpose of this cost-sharing rate hike is to restrain people from using LTC services by imposing higher costs on service users. For this reason, the impact of the rate hike on fiscal resources for LTC insurance services will be limited. Rather, this rate revision should be used as a springboard for realizing a copayment rate hike to 20% across the board in the future.

In terms of cutting back the amount of LTC services provided, strict benefit eligibility requirements should be introduced from the perspective of assuring fairness in terms of balance with people aged 75 or over, including a drastic change to raise the age requirement for Category 1 LTC insurance participants to 75 or over (currently 65 or over). Currently, participants in LTC insurance are divided into two categories based on age: Category 1 participants are aged 65 and over, and Category 2 participants are aged 40 to 64. The eligibility requirements for Category 2 participants are stricter. That said, in light of the fact that not many people aged up to 74 use LTC services, raising the age requirement to 75 for Category 1 participants would be successful in controlling benefit expenditure without having a substantial social impact.

There is another important point to consider when the government attempts to ensure the sustainability of the social security system: the generation gap that will be caused by unfair inter-generational burden sharing, which creates a particular need to assuage the heavy premium burden imposed on the generations still working. In other words, securing sustainable fiscal revenues will come into play.

I would suggest, as a possible solution for securing sustainable fiscal revenues, that sales tax revenue worth one percentage point of the tax rate be injected into the state contributions to elderly medical care (for people aged 75 and over) and LTC insurance services. I believe that this deserves serious attention. In the FY2013 budget, 13.8 trillion yen was allocated to medical care for people aged 75 and over, with 8.7 trillion yen to LTC services. If sales tax revenue equivalent to one percentage point of the tax rate is spent on medical care (1.4 trillion yen) and LTC services (0.9 trillion yen), the state contribution that currently accounts for 50% of the

total benefits provided will possibly go up to 60% in the financing structure. If deducted from the premium payments made by working generations, this 10 percentage point increase should serve as a tool to reduce the burden on the working generations in terms of paying premiums to support medical care for the elderly (aged 75 or over) and LTC service users, which is considered to be an unfair inter-generational burden imbalance. Now, a general consensus appears to be looming that stable fiscal revenues funded from the sales tax hike should be spent for social security purposes, given an aging population coupled with a declining birthrate causing a decline in the number of premium payers with more elderly service users. This provides an excellent opportunity for the government to beef up its focus on securing fiscal revenue funded from the tax hike.

Whether or not Japan's medical care and LTC insurance services become more sustainable will depend entirely on the outcome of the initiatives to be taken over the next ten years to FY2025, when the baby-boomer cohort will turn 75 and become the main service users, hitting peak demand for social security benefits. The government must not use the expected increase in sales tax revenue solely for the purpose of reducing the burden on future generations.

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