



# Medical and Nursing Care Expenses and Social Security

After 2025, by when the baby-boomer generation will have turned 75, medical and nursing care expenses will be a severe issue. How should we construct an efficient system of benefits and payments? The author will describe the organization of the current system and measures for efficiency and consider a realistic solution.

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## 1. Rapidly rising medical and nursing care expenses

It is widely known that medical and nursing care expenses have been increasing along with the aging population. As we move closer to 2025, when the youngest baby-boomer will turn 75, we cannot find effective measures for rapidly rising medical and nursing care expenses.

At the beginning of this discussion, the author will describe the organization of the current situation of medical and nursing care expenses.

According to the “The Financial Statistics of Social Security in Japan” published by the National Institute of Population and Social Security Research (IPSS), there was 114.9 trillion yen in social security benefits in 2015, 21.6% of GDP. Because social security benefits are a redistribution of added values (income), the scale of redistribution expanded amid the aging population. If social security benefits are classified into pensions, medical expenses and nursing care expenses, looking at the rate of increase for each expense, medical and nursing care expenses have seen a rapid increase in recent years. The rate of increase (annual average) of social security benefits as a whole was 2.6% from 2005 to 2015, while the increase rate of medical benefits was 2.9% and the increase rate of nursing care benefits was 4.8%. Related, medical benefits were 37.7 trillion yen and nursing care benefits were 9.4 trillion yen in 2015.

It is possible to grasp the scale of medical and nursing care expenses as well as social security benefits from many statistics. The Ministry of Health, Labour and Welfare publishes “Estimates of National Medical Care Expenditure,” which means the total medical expenses paid by the nation as a whole, including social security benefits. In 2015, it was 42.2 trillion yen. Compared with 33.1 trillion yen in 2005, national medical expenses rose more than 9 trillion yen over the last 10 years—



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1.3 times. In addition, according to the “Status Report on Long-term Care Insurance” published by the Ministry of Health, Labour and Welfare, which shows all nursing care expenses, they increased 1.5 times, from 6.3 trillion yen in 2005 to 9.5 trillion yen in 2015.

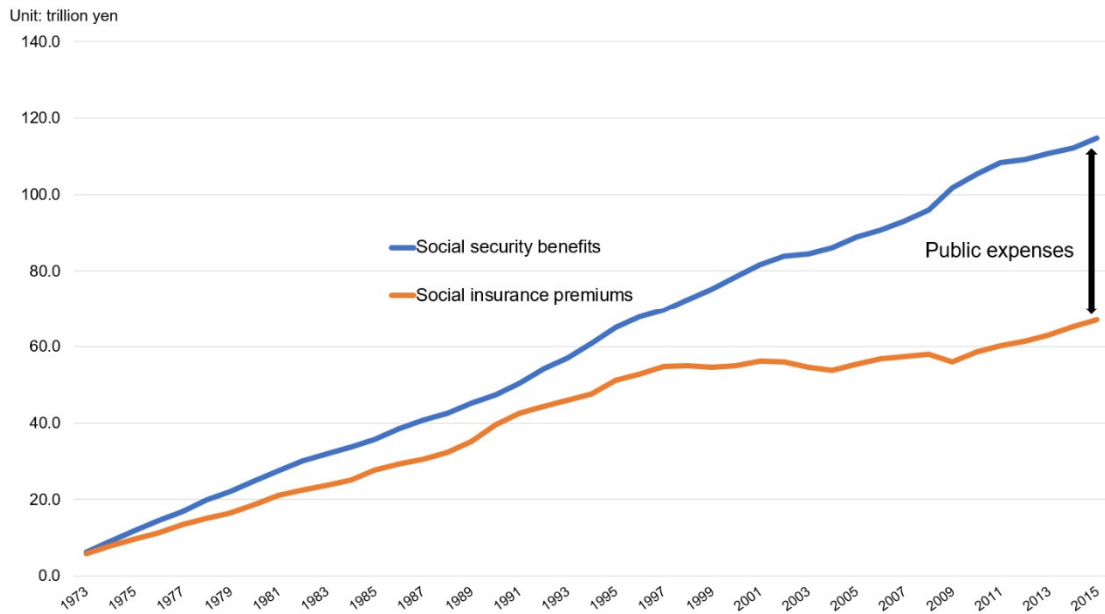
What caused these increases in medical and nursing care expenses? The increase in medical expenses can be attributed to the revision of remunerations for medical treatments received by medical institutions from health insurance societies, the progress of the aging population, medical advancement and other factors. But in recent years, the progress of the aging population and medical advancements have greatly contributed to the increase in medical expenses and the increase in rates of national medical expenses (annual average of 2.5%) in the past 10 years can almost be explained by these two factors (“Proposition Material on a Proposal on the Compilation of FY 2018 Budget” compiled by the Ministry of Finance’s Fiscal System Council). In this connection, per capita medical expenses were 742,000 yen for people aged 65 and older and 929,000 yen for people aged 75 and older, whereas per capita medical expenses were only 185,000 yen for people younger than 65 (“Estimates of National Medical Care Expenditure for 2015”).

For nursing care, the increase in nursing care expenses was caused by the rapid increase in the number of people certified for long-term nursing care and support. There were 256.2 million people certified for long-term nursing care and support in 2000, when the system was introduced. However, the number increased to 4.323 million in 2005 and even to 6.204 million in 2015 (“Status Report on Long-term Care Insurance” published by the Ministry of Health, Labour and Welfare). As this shows, medical and nursing care expenses have clearly been rising along with the aging population, which increases social security benefits as a whole. Keep in mind that 2025 is not the goal of the aging population, but will be the starting year when the aging population will increase even more.

## **2. Public payment and fiscal discipline**

Next, the author will look at the financial sources of social security benefits. Figure 1 shows time-scale changes in social security benefits and insurance premium revenues according to “The Financial Statistics of Social Security in Japan.” Social insurance, such as pensions, medical benefits and nursing care benefits, is constituted from insurance premiums, but financial sources also include public payments (taxes) and reserve funds. According to Figure 1, benefits and insurance premiums increased proportionally until the mid-1990s, but the share of public payments rapidly increased after that. This is a reflection of the fact that while benefits increased along with the aging population, insurance premium revenues stagnated because the incomes of the active workforce did not increase as much as expected and were supported by public payments. In 2015, benefits were 114.9 trillion yen, while revenues from public payments were 66.9 trillion yen (41.7%); in 1995, benefits were 65 trillion yen, while revenues from public payments were 13.8 trillion yen (21.2%), which shows a clear, rapid increase.

**Figure 1: Changes in social security benefits and insurance premium revenues**



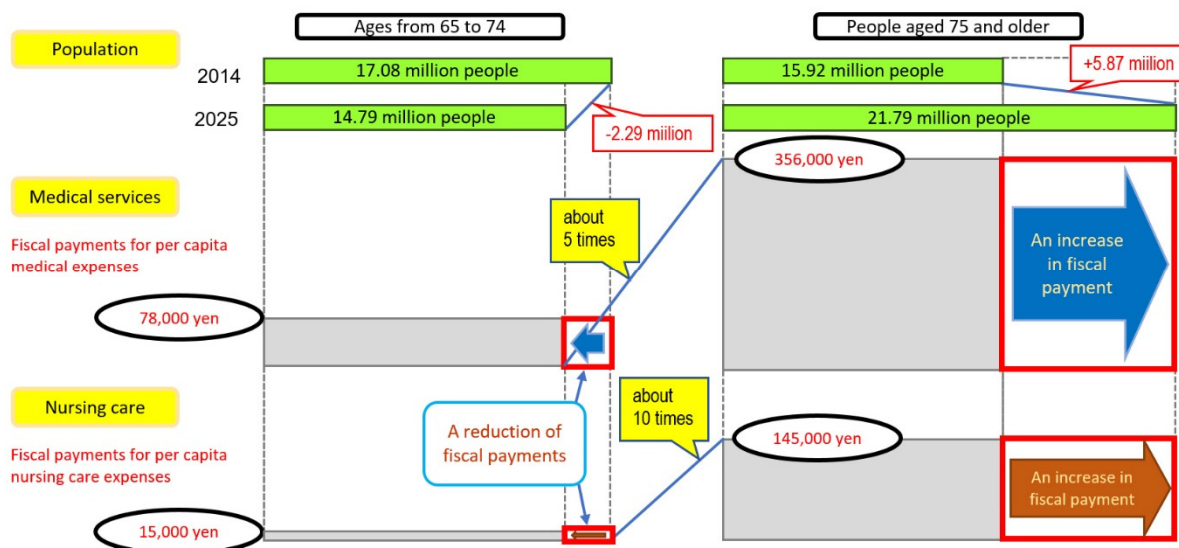
**Source:** Created by the author, according to "The Financial Statistics of Social Security in Japan" compiled by the National Institute of Population and Social Security Research (IPSS).

Most public payments are covered by social security-related expenses, which are part of the central government's general annual expenditures. Therefore, social security-related expenses reached 32.5 trillion yen in the FY 2017 budget, 33.3% of total general annual expenditures. This rapid increase can be seen from the fact that the rate was just 17.8% in 1995. This increase in social security-related expenses is also the main factor for the central government's fiscal deficits. In terms of annual expenditures, the inflation of public works projects was the largest factor for fiscal deficits in the 1990s. But in recent years, the increase in social security-related expenses has led to a deficit in the balance of basic fiscal payments. In response, the government aims to achieve the goal of curbing the increase in social security-related expenses regarding general annual expenditures to 1.5 trillion yen (500 billion yen on an annual basis) in three years to improve the balance of basic fiscal payments.

The government has a goal of achieving a surplus in the balance of basic fiscal payments by 2020 as part of its policy for healthy fiscal conditions as well as curbing the increase in social security-related expenses. But "Economic and Fiscal Projections for Medium to Long-term Analysis," which was published by the Cabinet Office in July 2017, shows that a deficit of 8.2 trillion yen will remain in the balance of basic fiscal payments in 2020, even in a scenario of economic revitalization near a nominal GDP growth of 4%. The government almost abandoned its goal of achieving healthy finances by 2020. But Japan, which suffered long-term debts of more than 240% in comparison with the GDP at the end of 2017 (IMF "World Economic Outlook Database," October 2017), cannot afford to give up on its slogan of achieving healthy finances. The

government is set to continue to carry out fiscal structural reforms to achieve a surplus in the balance of basic fiscal payments. But it will become even more difficult to achieve this goal as time passes. This difficult situation will be caused by the increase in social security-related expenses due to the inflation of medical and nursing care expenses.

**Figure 2: The Effect of the Progress of Aging Population on Fiscal Conditions**



Source: Materials compiled by the Ministry of Finance’s Fiscal System Council

It has been a long time since the 2025 issue was discussed, but its impact will get even more serious after 2025. According to “Population Projections for Japan: 2016 to 2065,” which was published by the National Institute of Population and Social Security Research (IPSS) in April 2017, the population of people aged 75 and older will continue to increase from 21.8 million in 2025 to 24.49 million in 2054. The percentage of the population of people aged 75 and older will also steadily rise from 17.8% in 2025 to 25.7% in the 2060s. If the current medical and nursing care systems continue to be implemented, the effect of the progress of the aging population on fiscal conditions will be larger as people aged 75 and older increase.

Figure 2 shows the government’s coverage by public payments by age, with a focus on the elderly, according to a material compiled by the Ministry of Finance’s Fiscal System Council. If you classify old people into a group of people aged 65 to 74 and a group of people aged 75 and older, fiscal payments for per capita medical expenses are 78,000 yen with the group of people aged 65 to 74, while they are 356,000 yen with the group of people aged 75, about a 5-fold increase. Fiscal payments for per capita nursing care expenses are just 15,000 yen for the group of people aged 65 to 74, whereas they are 145,000 yen with the group of people aged 75 and older, a nearly 10-fold increase. Because of such deepening of the aging population, fiscal payments for medical and nursing care expenses will get even heavier.

### 3. The current situation of measures for more efficient medical and nursing care expenses

For the compilation of the FY 2016 and 2017 budgets, the government curbed the increase in social security-related expenses in general annual expenditures within 500 billion yen based on “Reform Schedule for the Plan for Economic and Fiscal Revitalization.” Now, the author will organize what measures the government implemented for more efficient medical and nursing care expenses.

In 2016, the government curbed the increase in social security-related expenses within 441.2 billion yen, mainly by restraining the revision of remunerations for medical treatments received by medical institutions from health insurance societies and drug prices as well as special reductions of fiscal subsidies for the Japan Health Insurance Association, whereas the government had an increase of 499.7 billion yen compared with the previous year by paying 58.5 billion yen to expand social security due to the raising of the consumption tax rate. For the revision of remunerations for medical treatments received by medical institutions from health insurance societies, which is conducted every two years, the government increased remunerations for medical treatments received by medical institutions from health insurance societies by 0.49%, but the government decreased drug prices by 1.22% and material prices by 0.11%. In addition, for system reforms, the government also lowered the prices of new generic drugs and reviewed evaluations of large pharmacies outside doctors’ offices or hospitals. On the other hand, the government added new annual expenditures of 58.7 billion yen through “temporary special benefits for child-rearing households” for households exceeding income restrictions on child allowances as part of its measures for developing social security.

In 2017, the government managed to achieve its goals, with an increase of 499.7 billion yen compared with the previous year, by reviewing medical and nursing care expenses according to “the Reform Road Map” in the above-mentioned “Economic and Fiscal Revitalization Plan.” More specifically, the government reduced its annual expenditures by 107.9 billion yen—22.4 billion yen by reviewing medical treatment expenses for people aged 70 and older who had received more preferential treatment than the active workforce, 18.7 billion yen by reviewing preferential treatment for reducing insurance premiums for people aged 75 and older and 19.6 billion yen by lowering the prices of Opdivo (Nivolumab), an expensive cancer treatment drug that attracted public attention. But as in 2016, the government also increased its annual expenditures for better social security, including expanding child care facilities and shortening the eligibility period for receiving pensions.

For 2018, the budget is currently being compiled. The first-priority policy is the simultaneous revision of remunerations for medical treatments received by medical institutions from health insurance societies (revised every two years) and payments for nursing care work (revised every three years) once every six years. In these revisions, for remunerations for medical treatments received by medical institutions from health insurance societies, the government lowered drug prices by 0.9% through significant review, but reduced payments for nursing care work by 0.54%.

It has the prospect of managing to achieve its initial goal of curbing the margin of increase in social security-related expenses within about 500 billion yen.

As discussed above, the government is reviewing social security-related expenses with a focus on medical and nursing care expenses for the time being, based on “the Economic and Fiscal Revitalization Plan.” But this measure is based on the goal of achieving a surplus in the balance of basic fiscal payments by 2020. Even if this goal is postponed, unless the government makes continued efforts to realize more efficient medical and nursing care expenses, it is clear that fiscal sustainability will be lost.

#### **4. What should we think about the increase in medical and nursing care expenses?**

The increase in medical and nursing care expenses cannot be solved just by cutting them. Behind the increase in medical expenses are medical advancements, which have realized better health and longer life expectancy, increasing our welfare. The introduction of nursing care insurance led to the socialization of nursing care services and the diversification of nursing care service providers. On the other hand, the effect of nursing care expenses on finance and heavier burdens on the active workforce cannot be overlooked. How should we cope with this issue? The answer to this question is not easy, but the author will present three focal points from a realistic point of view.

First, review the burden of payments. Fundamentally speaking, medical and nursing care insurance should receive payments commensurate to risks according to the principle of insurance. Those who suffer greater risks cannot necessarily pay high insurance premiums due to the characteristics of medical and nursing care services. Therefore, you must properly secure the principle of redistribution in the form of people with larger incomes and assets paying more money. You should even require the elderly to pay more money if they have large incomes and assets.

Second, reconsider the risks covered by insurance. Even now, the government provides substantial services to people with greater risks by introducing an expensive medical treatment system. But people must be required to pay more money by themselves for minor injuries with low risks and costs. For nursing care as well, those with low nursing care levels (between 1 and 5 based on assessment of care requirements) should be required to pay more on their own. Of course, in such case, consideration must be shown for low-income earners from the perspective of the principle of redistribution.

Third, review self-help. Consider the introduction of new self-help systems, such as reducing the level of public payments by promoting the use of private medical and nursing care insurance or promoting private-based savings accounts to cover medical and nursing care expenses in the future.

What is important is how to cope with the progress of the aging population and how to construct a system of efficient benefits and payments. Of course, active discussions must be held about increasing payments by further raising the consumption tax rate in addition to these efforts.

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