Japan: The Health Care System

The health care system in Japan is a combination of ample government regulation and private provision of services. A national mandate requires each individual to obtain health insurance. The total expenditure of the health care system is relatively low, comprising 8.2% of the GDP.

About 80% of hospitals are private and by law must operate not-for-profit. Physicians practice on a fee for service basis though they may be paid per diem in a hospital setting. All medical service fees are nationally set by a Fee Schedule, which the government revises every two years.

Insurance coverage is based on employment, and every plan consists of a nationally determined package of comprehensive benefits. The Social Insurance System (SIS) is employer-based and includes 1,800 Health Insurance Societies. These funds cover about 63% of the population and are funded through income-based premiums. The premium amounts to roughly 8% of the employee’s salary, which is shared equally by the employer and individual. In addition to premiums, individuals must pay 20-30% of total inpatient and outpatient costs as well as a pharmaceutical copayment. These fees are capped at $600 a month. There is a lower cap for low-income persons. Outside the SIS is the National Health Insurance (NHI), which is responsible for coverage of the unemployed, self-employed, and the elderly (37% of total population). There are 3,400 regionally based, government subsidized plans under the NHI. Premiums for the self-employed are based on income, assets, and benefit payments from the previous year. A similar copayment percentage is required for services in the NHI, but this fee is also capped and may be subsidized.

Recent additions to the system have been instituted due to the rapidly aging population. Long term care insurance began to be provided in 2000 in order to support the overall system and provide better care. Persons over 40 are automatically enrolled in long term care insurance, but utilization requires certification through a regional review board.
(must be over 65 or have specific condition). This insurance covers 90% of health care costs and prescribed medication, and funding is split between the government and enrollees.

The Japanese enjoy universal healthcare and outshine most international comparisons in both health outcomes and cost. Despite these advantages, the health care system does face a number of challenges. In general, the health care system does not clearly separate primary care from specialty care. Doctors in private clinics try to deal with all the problems of the patient, and this may affect the quality and efficiency of care available from specialists. There is also not a clear separation between prescribing and dispensing of pharmaceutical drugs. As physicians operate in-office pharmacies on a fee for service basis, this could easily result in over-prescribing.

Japan experiences a high volume of services; also most likely a result of the fee for service freedom of choice scheme. The system averages 16 consultations per capita per year (twice the OECD average, four times the US average) in addition to a 4-fold increase above the OECD average for average length of hospital stay. These high volumes may emphasize quantity in sacrifice of quality. There is also no standardized set of quality benchmarks, and nationally set fees do not necessarily guarantee equal quality of care across the system.

Suggested reform includes the use of Diagnosis Related Groups for hospital payments, which would create incentives for physicians to treat patients in the most cost-effective way. The large number of insurers has also prompted a push for integration of plans, so as to increase equality in certain risk pools. As the system is largely employment-based, future financing reforms will primarily need to address the combination of an aging population and a shrinking workforce.

Prepared by: Adam Dougherty

Resources: