

2015 health care outlook Japan

By developed-world standards, Japan spent a modest amount on health care in 2013, at an estimated \$480 billion or 9.8 percent of gross domestic product (GDP).² Driven by a rapidly aging population and increasing chronic diseases, health care spending is expected to rise by an average of three percent a year in 2014-18, reaching 10 percent of GDP by 2018. Health care spending will continue to outstrip GDP growth, exerting further pressure on Japan's budget deficit and the national debt.³

Despite a number of government-driven initiatives to control social security spending, the gap between expenditure and premium income is expected to continue to widen. It is estimated that, in 2013, premium income only covered 56 percent of social security expenditure — \$622 billion income for \$1.1 trillion) expenditure.⁶

**Estimated health care expenditure:
\$480 billion in 2013**

**Health care as a share of GDP:
9.8 percent in 2013¹**

Japan is the third-largest spender on health care in the world after the U.S. and China, and the majority of health care spending is publicly funded.⁴ Every Japanese citizen, including the unemployed, is required to participate in the National Health Insurance (NHI) program. Despite a number of government-driven initiatives to control social security spending, the gap between expenditure and premium income is expected to continue to widen. It is estimated that, in 2013, premium income only covered 56 percent of the social security expenditure — \$622 billion income for \$1.1 trillion) expenditure (Figure 1).⁵

To safeguard the health care system's viability, the Japanese government is proceeding with social security system reform, including re-allocating hospital beds, shifting from hospital- to community-based care delivery, and raising the consumption tax rate to close the gap in the social security budget.

In Japan, the majority of medical facilities are privately owned, run by small-sized medical corporations that are usually established by individual physicians, and provide fee-for-service-based care. Medical fees are controlled by the government and revised in every even year. As part of its cost-containment strategy, the government is discussing the introduction of a holding company scheme that integrates fragmented medical corporations to realize optimal allocation of hospital beds and increase buying power through group purchasing.

¹ *Industry Report, Healthcare: Japan*, The Economist Intelligence Unit, June 2014

² *Ibid*

³ *Ibid*

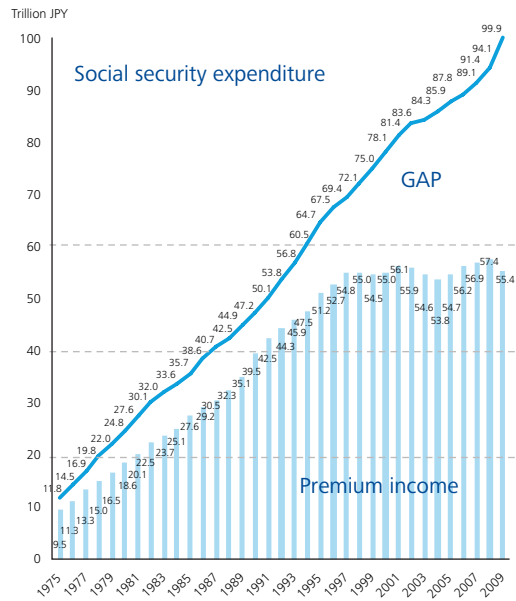
⁴ *Industry Report, Healthcare: Japan*, The Economist Intelligence Unit, June 2014

⁵ Ministry of Finance, Japanese Public Finance Fact Sheet, February 2014

⁶ Ministry of Finance, Japanese Public Finance Fact Sheet, February 2014

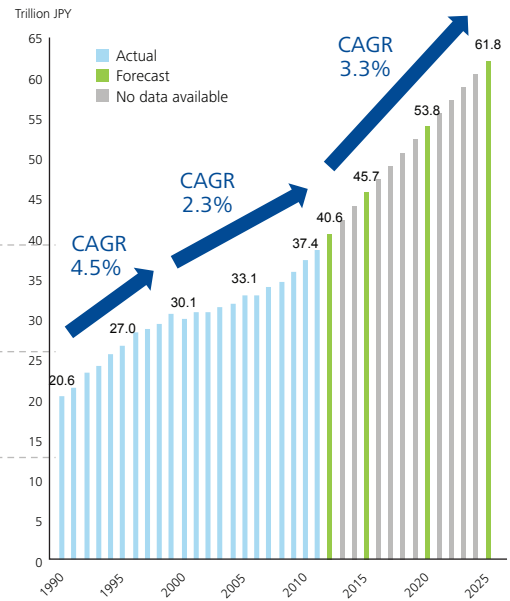
Figure 1:

Gap between social security expenditure and premium income



Source: Ministry of Finance

Future projection of national healthcare expenditure



Source: The Ministry of Health, Labour and Welfare

Hospital facilities are another focus for cost-containment efforts. Japan reportedly has too many acute hospitals — which are more costly than nursing-type hospitals — and this may be contributing to climbing health care costs. There may be a government push for smaller acute hospitals to switch to long-term care facilities within the next few years. Also, there are increasing efforts by payers to control health care spending by promoting healthier lifestyles through various enrollee incentives.

To address government and payer current cost-control initiatives, health care providers in Japan may need to reconsider their current business models. Expanding their service portfolio to cover the disease lifecycle, from

preventive care to nursing care, could be an option. This approach is also consistent with the concept of the government’s “21st-century type social security scheme” shift from hospital- to community-based care delivery.

Utilizing big data to streamline health care operations could also be a key to increasing efficiency and reducing costs. The Japanese government is going to provide a social security number, the so-called My Number, to citizens and allow utilization of health data by health care providers. If this scheme is realized, medical facilities, as well as nursing care providers, can share/access patients’ medical records and eliminate unnecessary testing and/or medications.



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