

AIHI Seminar

The Chaos of Health Reform in Japan

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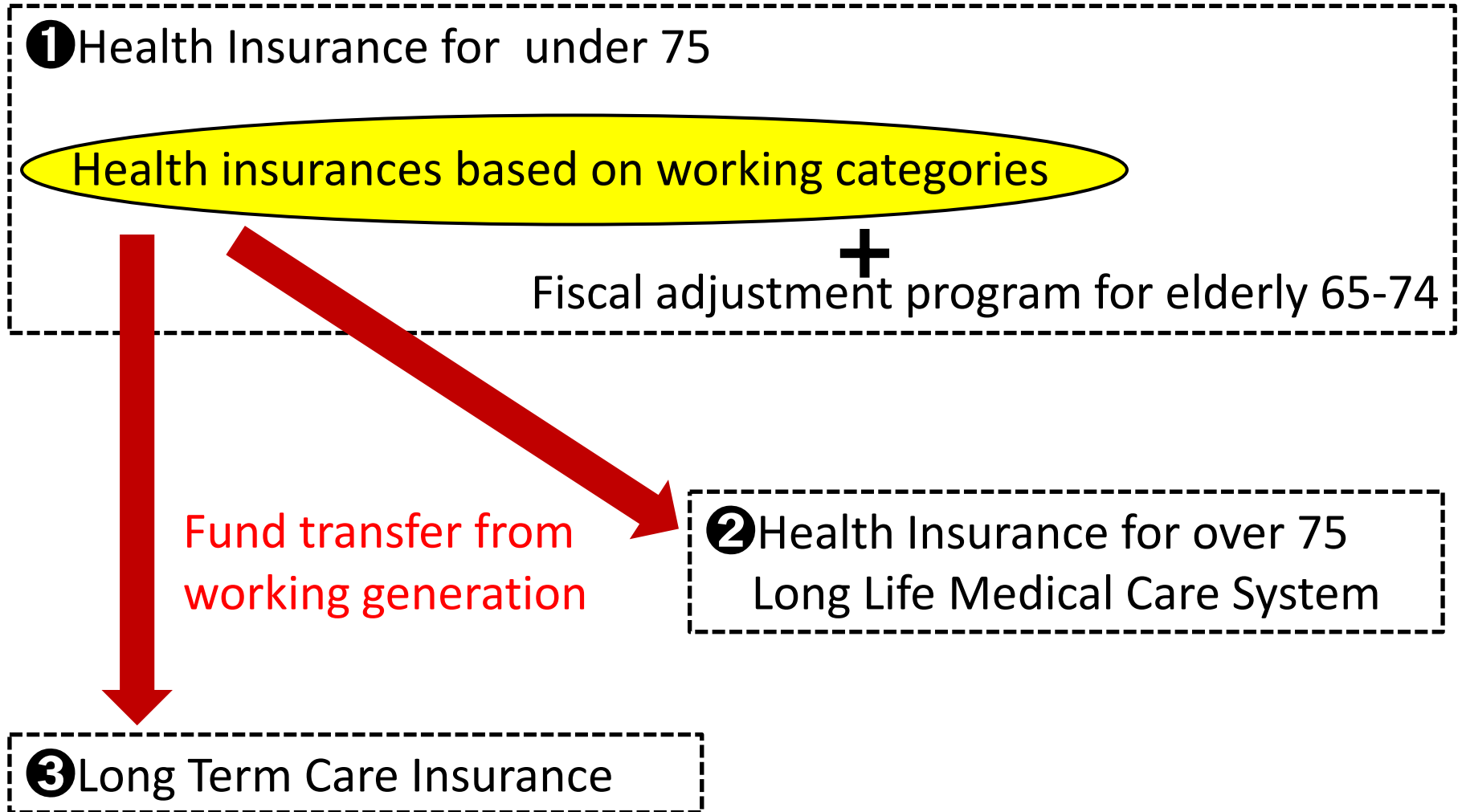
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① Basic information

Triad of Healthcare Finance



The number of hospitals by ownership form

			Dec 2007	Aug 2010	
Public	National	National Hospital Organization	146	144	274
		National University Hospitals	49	48	
		Japan Labor Health & Welfare Organization	38	34	
		Other national hospitals	62	48	
	Municipal	Prefecture or City or Town	1,060	938	992
		Local Independent public Corporations	0	54	
	Other public	Koseiren (Agricultural Corporations)	123	112	411
		Japan Red Cross	92	91	
		Saiseikai Imperial Gift Foundation Inc.	78	80	
		Social Insurance Hospitals	52	51	
Other public hospitals		85	77		
Private	Private medical organizations		5,680	5,721	7,004
	Private university hospitals		102	108	
	Other private hospitals		1,451	1,175	
Total			9,018	8,681	

National Healthcare Expenditure

--- FY 2010 Budget & Forecast ---

	Medical Services	458 Billion AU\$
	Long-term Care Services	96 Billion AU\$
	(1) Total National Healthcare Expenditure	554 Billion AU\$
	(2) Nominal GDP	5,845 Billion AU\$
	(1) ÷ (2) Nominal GDP Growth Rate: FY2008 ▲4.2% FY2009 ▲3.6% FY2010 0.6%	9.5 % <FY 2007 : 7.9%>
	(3) Population	127,522,000
	(1) ÷ (3) Healthcare expenditure per capita	4,344 AU\$

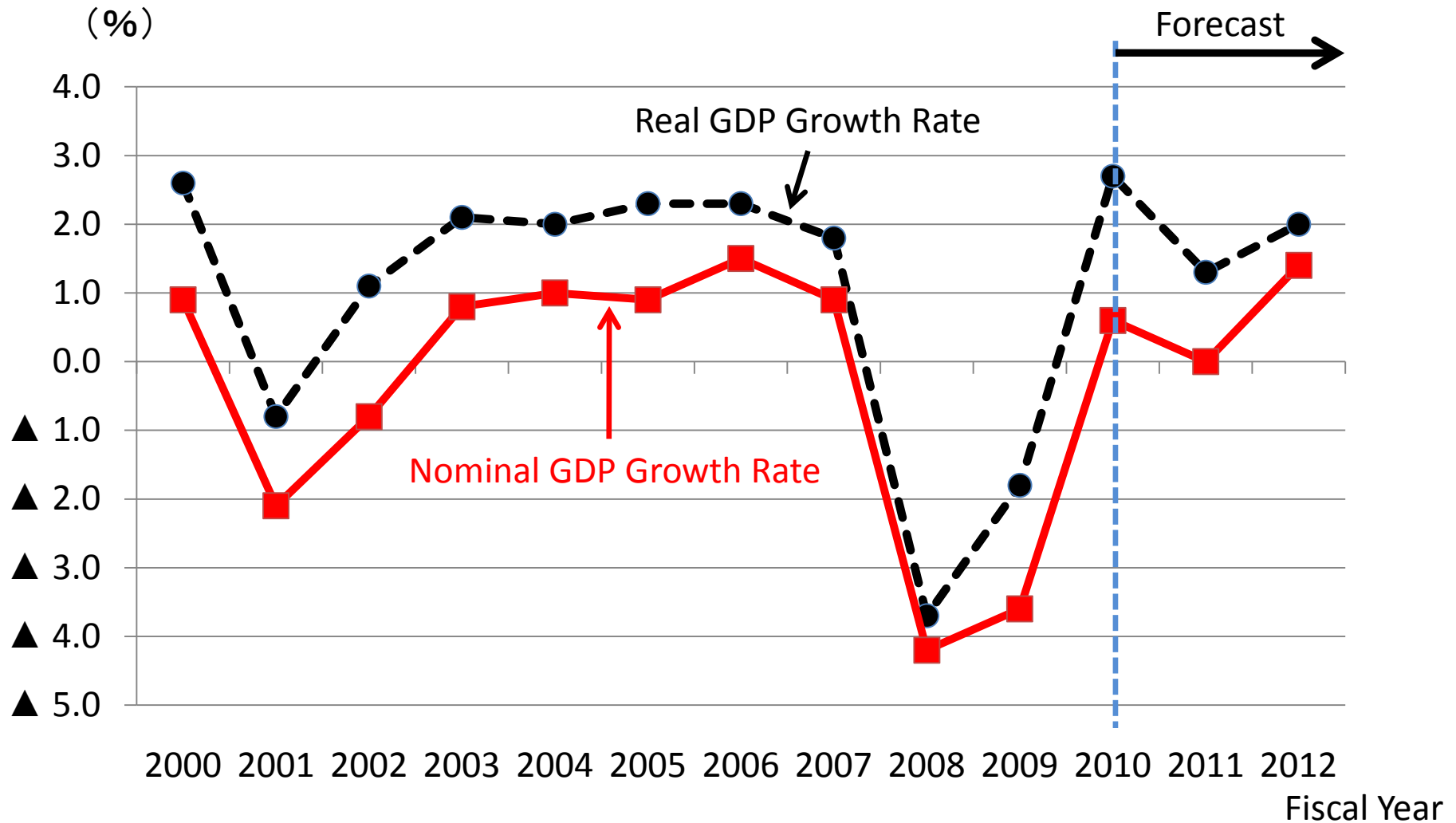
National Healthcare Expenditure includes patient's payment out of pocket

Foreign currency exchange rate : 1 AU \$ = 82 Yen

(Source) Total National healthcare expenditure is the government budget baseline.

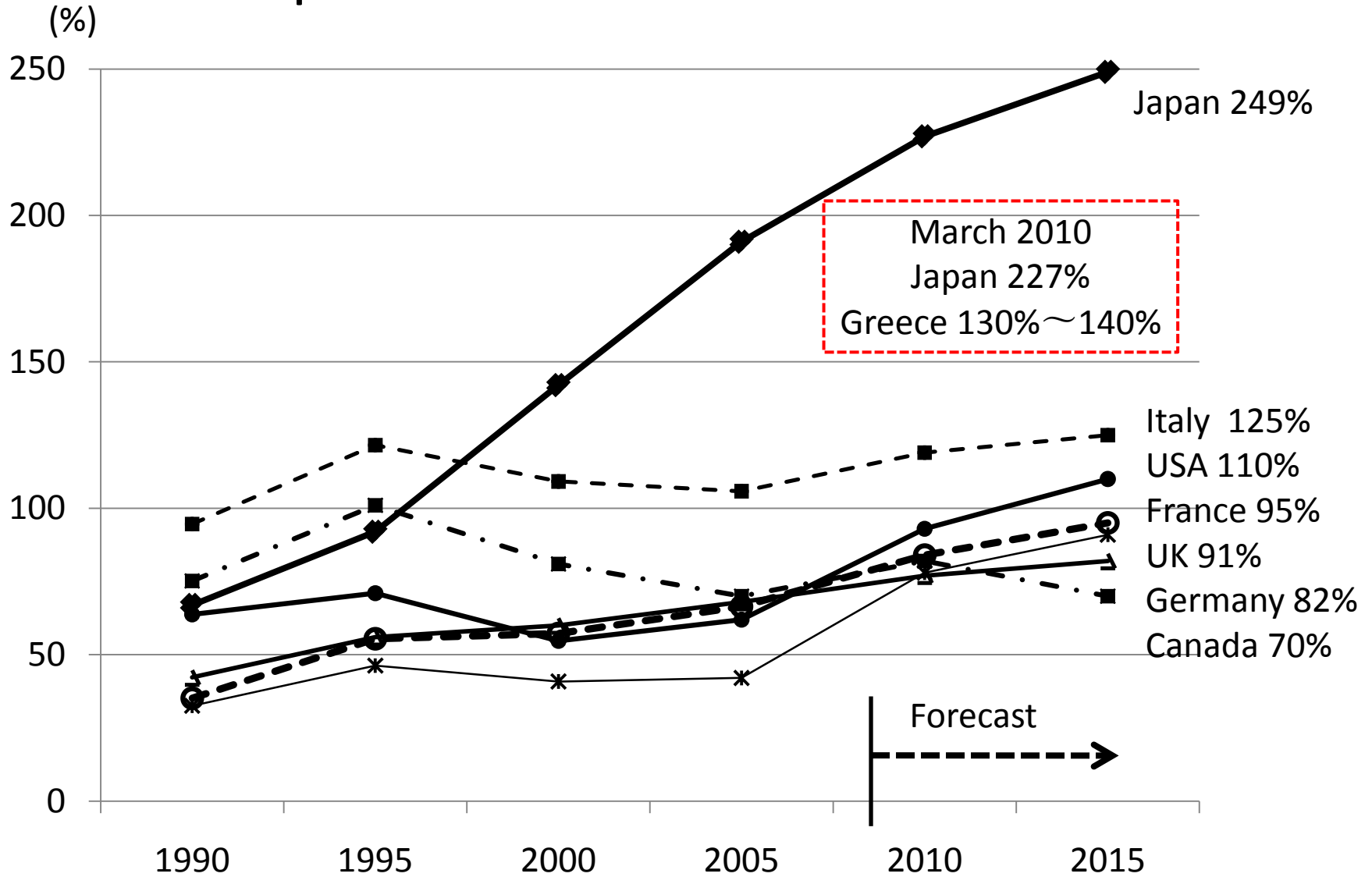
Nominal GDP is forecasted by Japan Center for Economic Research

Deflationary economy will continue -----



(Source) Japan Center for Economic Research, Short Term Forecast, November 2010

Proportion of national debt to GDP



(Source) IMF World Economic Outlook Database April 2010

Why has Japanese Yen been strong after Lehman's shock?

① No.1 Net Overseas Assets

<As of December 2009>

Japan 3,247 billion AU\$

China 2,050

Germany 1,450

② Trade surplus

③ Most of national bonds are held by domestic households

<As of March 2010>

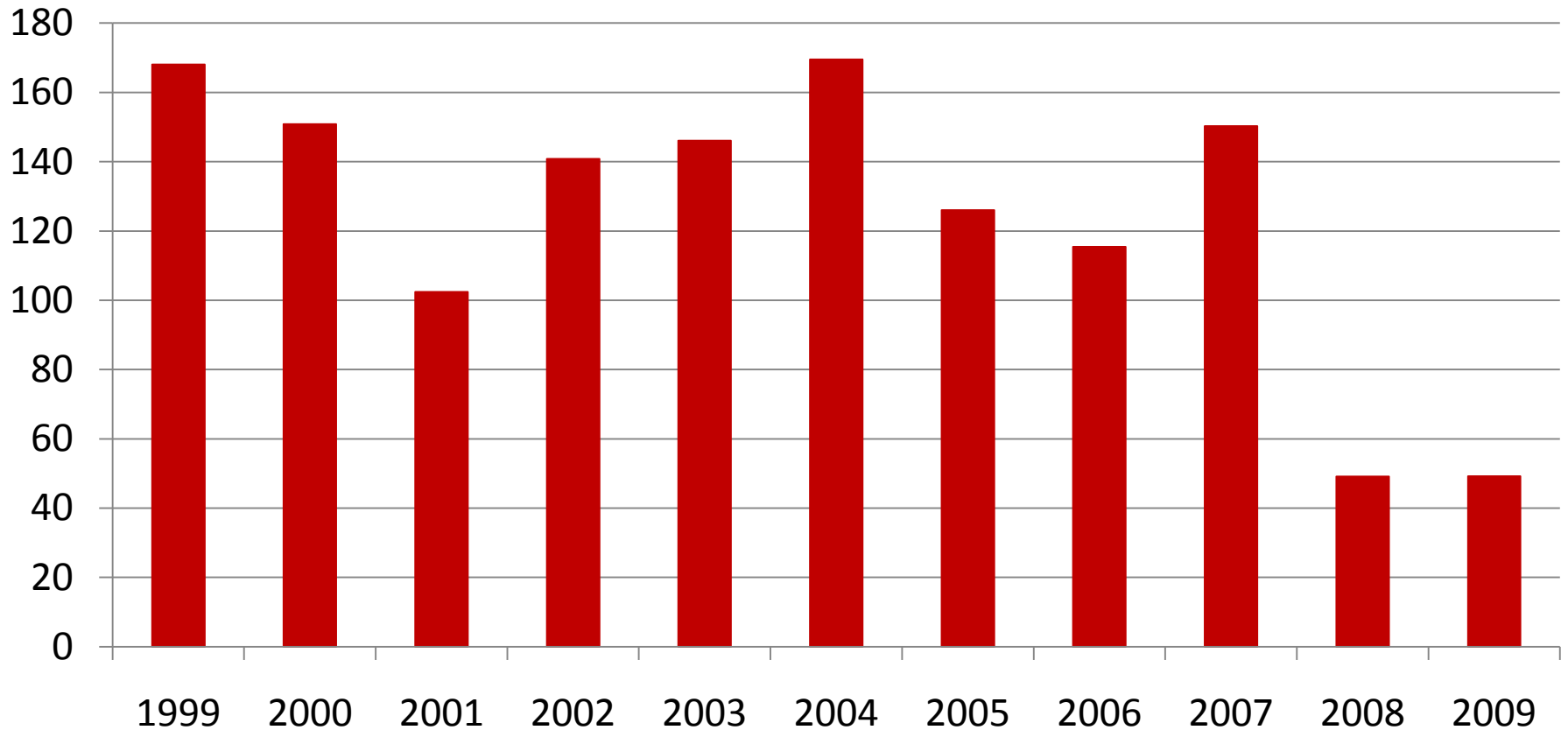
Domestic households **93.6%** Foreign investors 6.4%

General Government Debt **<** Household financial Assets
13,183 billion AU\$ 17,720 billion AU\$

Japan's international competitiveness erosion is beginning

Billion AU\$ (1AU\$=82 YEN)

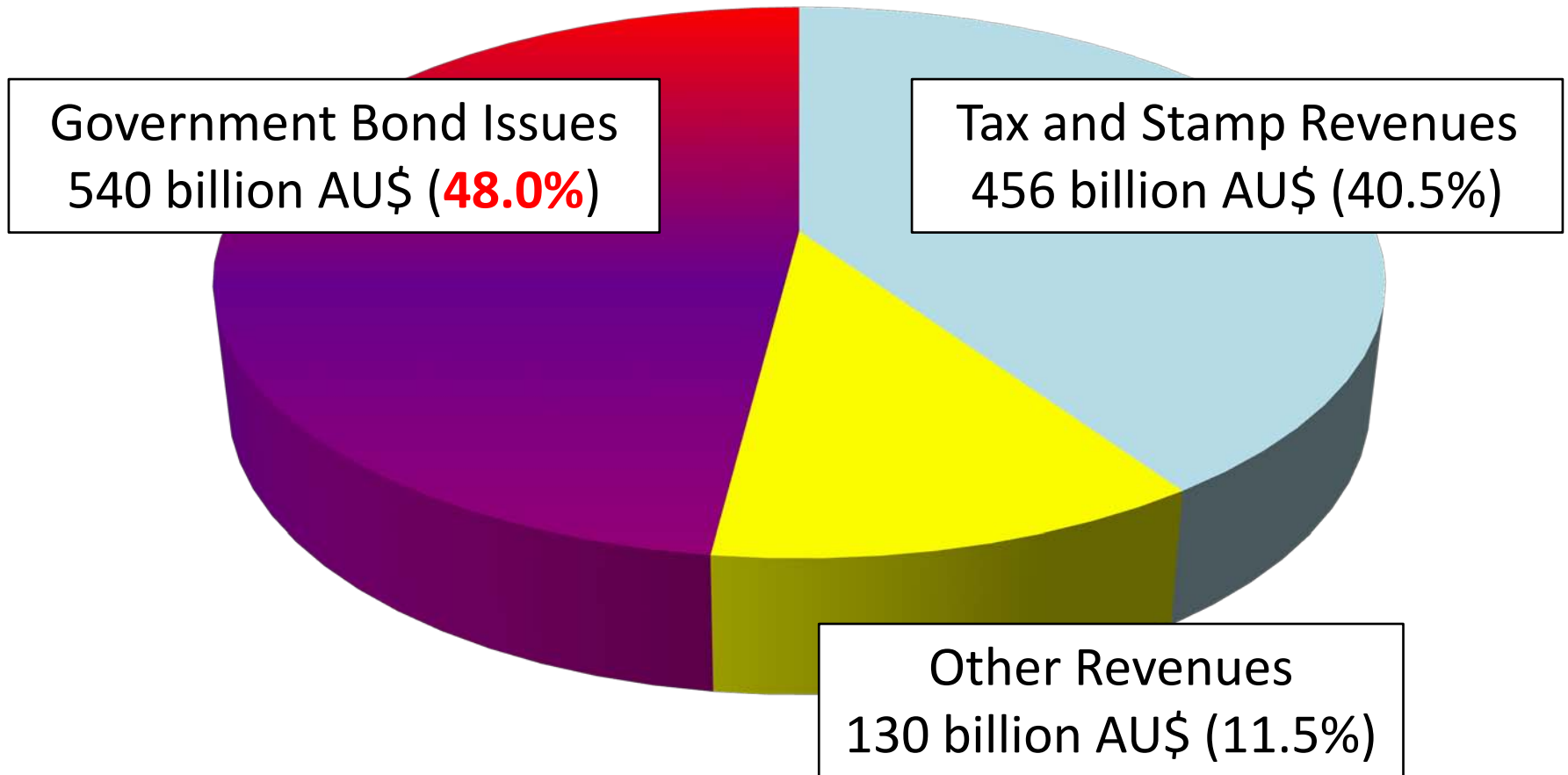
Trade Surplus



FY 2010 Budget ①

Breakdown of Revenues

General Account Total Revenues 1,126 billion AU\$ (100%)

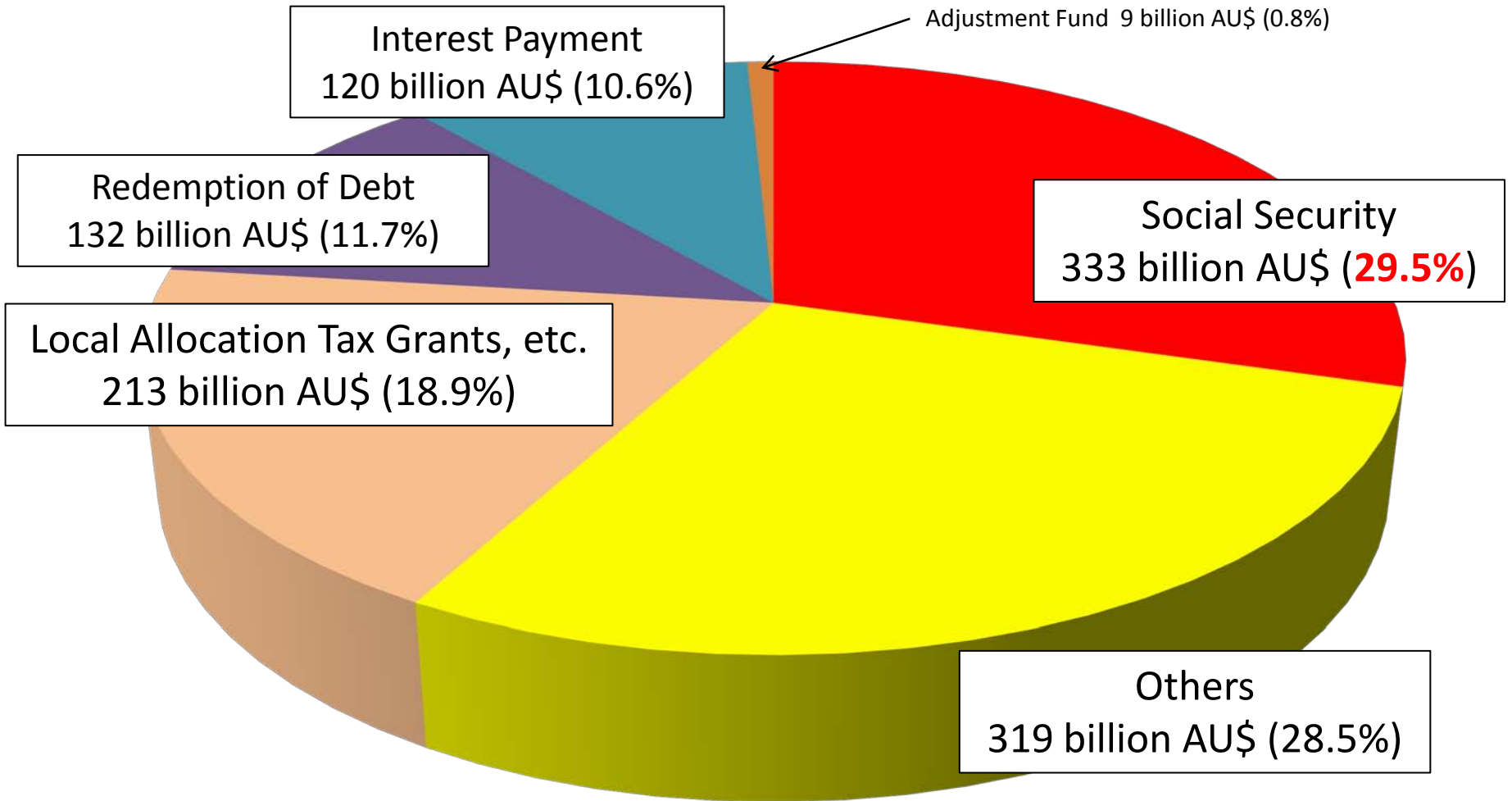


(Source) Ministry of Finance, Japanese Public Finance Fact Sheet, February 2010

FY 2010 Budget ②

Breakdown of Expenditures

General Account Total Expenditures 1,126 billion AU\$ (100%)



(Source) Ministry of Finance, Japanese Public Finance Fact Sheet, February 2010

② Insolvency of healthcare insurers

Badly fragmented health insurance system (1)

Age	Health insurance classification for medical services		The number of insurers	Insured persons (000)	Average age	Average income per insured (AU\$)
0 ~ 74	Health insurances for persons in employment	Health Insurance Associations	47	34,720	36.0	26,585
		Health Insurance Societies	1,497	30,340	33.8	35,732
	Mutual aid associations	National public employees	21	9,020	33.4	39,146
		Local public employees	55			
		Private education employees	1			
	National health insurances	Municipalities	1,788	35,970	49.2	11,659
		National health associations	165	3,520	38.8	36,341
75-	Long life medical care system		47	13,460	81.8	N/A

The total number of insurers 3,621 ⇒ Average of insured persons 35,081

<Source> The government elderly health system committee Sept 27 and Oct 25, 2010

Badly fragmented health insurance system (2)

Age	Health insurance classification for medical services		Medical expense per capita (AU\$)	Premium per capita (AU\$)	Gov't subsidy ratio (%)	Gov't Subsidy <FY 2010> (million AU\$)
0 ~ 74	Health Insurance for persons in employment	Health Insurance Associations	1,805	2,146 E+E	16.4%	12,740
		Health Insurance Societies	1,585	2,476 E+E	little	29
	Mutual aid associations	National public employees	1,622	2,671 Employee + Employer	0%	0
		Local public employees				
		Private education employees				
	National Health Insurances	Municipalities	3,439	1,012	50%	45,135
		National health associations	2,037	1,512	39%	3,539
	75 ~	Long life medical care system		10,549	780	50%

Badly fragmented health insurance system (3)

*National Health Insurances of municipalities carry the **structural deficiency***

① Most of insured person are lower-income

◆ Average income ◆ Ratio of no income ◆ Ratio of premium discount household
11,659 AU\$ **26.3%** **40.6%**

② Disparity of per capita premium among 1,788 municipalities

The highest 1,646 AU\$ ~ The lowest 341 AU\$ → **4.8 times disparity**

The disparity in the same prefecture is **1.3 times** ~ **2.7 times**.

<Tokyo : 67 municipalities>

③ The smallest number of insured person in a national health insurance is **92**

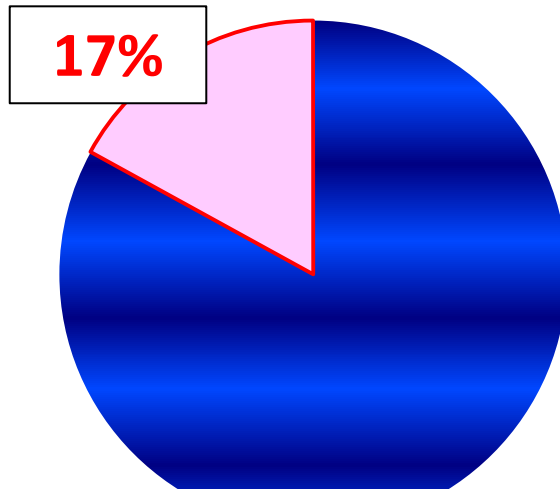
④ **11.6%** of insured person do not pay premium, even though they have money.

⑤ The municipal governments are forced to pay about **3.2 billion AU\$ per year** to cover the National Health Insurance fund deficit.

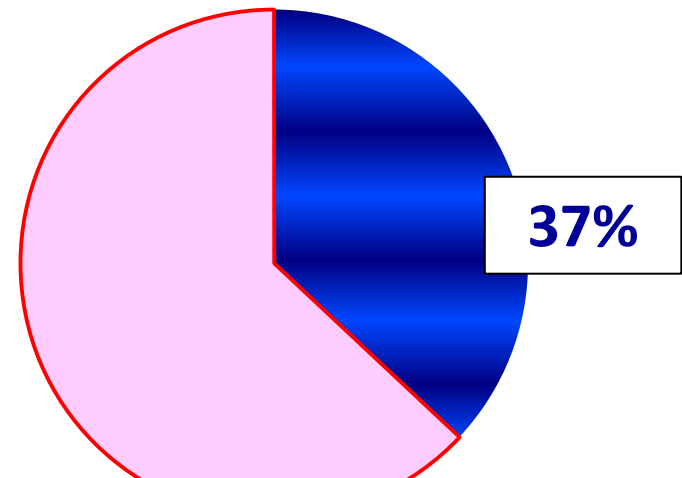
Elderly health system fiscal structure ①

Fiscal Adjustment program for elderly 65-74

Funding ratio
Before adjustment



Funding ratio
After adjustment

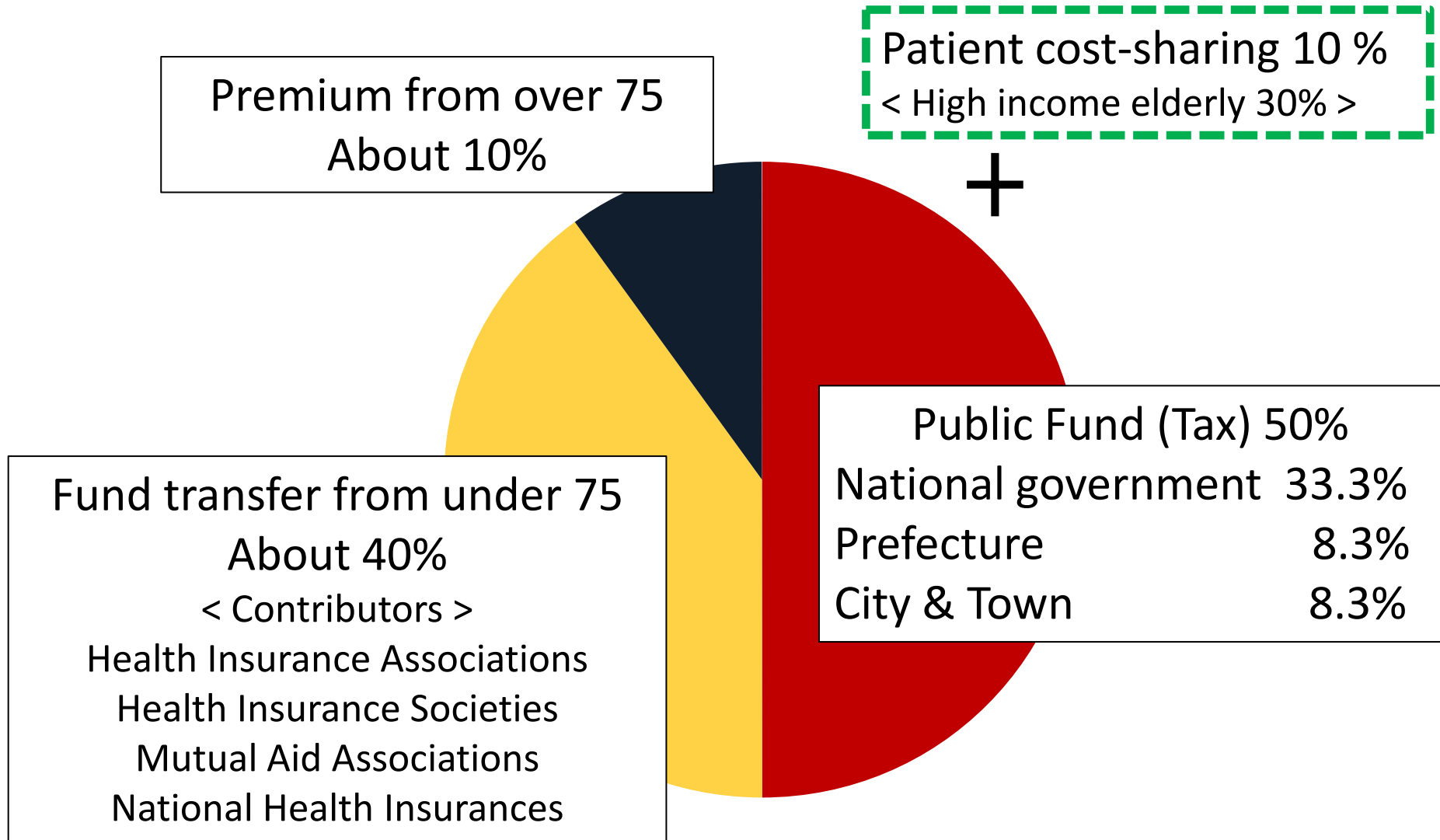


***National Health Insurances
of municipalities***
83%

Health Insurance Associations
Health Insurance Societies
Mutual Aid Associations
63%

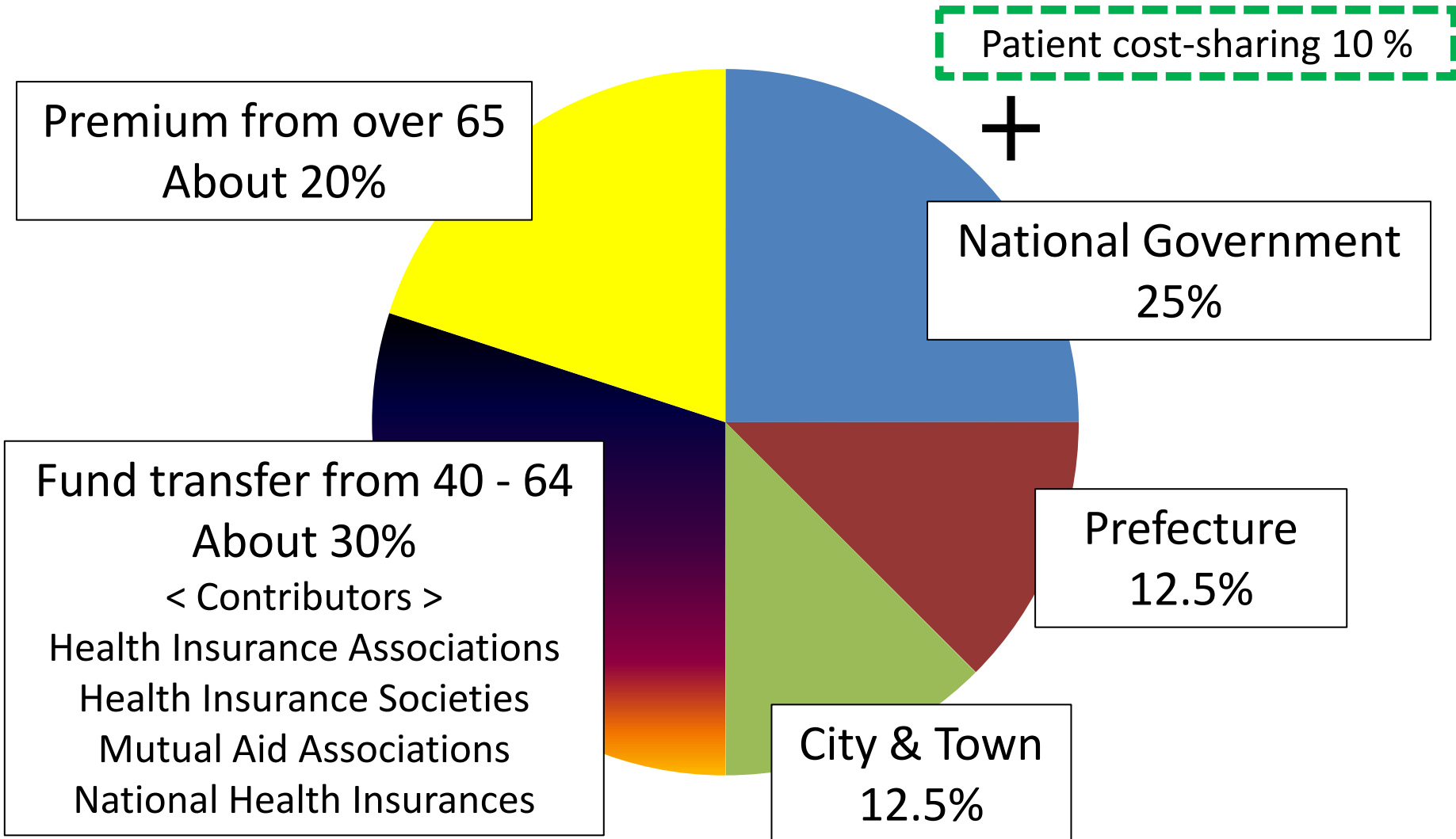
Elderly health system fiscal structure ②

Long life medical care system



Elderly health system fiscal structure ③

Long term care insurance



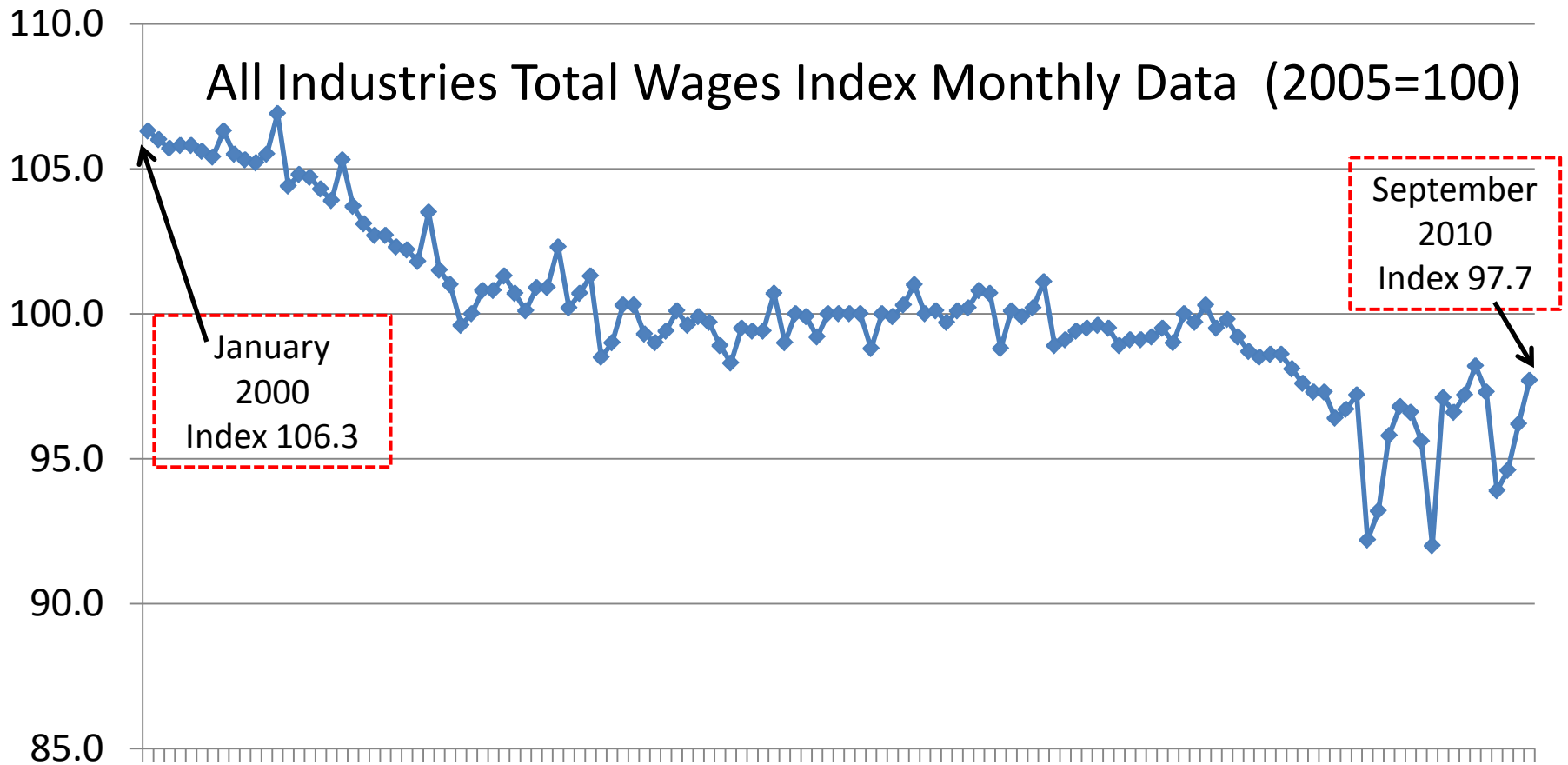
Badly fragile health insurance system

Health insurance classification	The number of insurers	FY 2008 Fund balance (million AU\$)	FY 2009 Fund balance (million AU\$)	Reserves as of March 2010 (million AU\$)
Health Insurance Associations	47	▲ 2,793	▲ 5,967	▲ 3,877
Health Insurance Societies	1,497	▲ 3,889	▲ 6,384	N/A
National health insurance Municipalities	1,788	▲ 2,906	N/A	Less than one month



In 2010, the health insurance law was revised to force Health Insurance Societies to support Health Insurance Associations fiscally. However, such fiscal adjustment is not sustainable anymore.

Wages deflation in Japan



The effect of premium rate increase is eliminated by total wages decrease

Government's plan to raise financial resources

- ① Increase the ratio of patient's out of pocket expenses
- ② Increase tax on high income insured person
- ③ Increase the consumer tax rate from 5% to 10% ~ 15%



Politicians have not yet explained the reasons of tax increase clearly in words of their own.

③ Defects of healthcare delivery system

Total of municipal public hospitals

(Million AU\$: 1AU\$=82Yen)

	2007	2008	2009
Total income (million AU\$)	49,112	48,659	48,765
Patient service and etc	42,661	41,747	41,858
Operating expense subsidy (1)	6,451	6,912	6,907
Total expense (million AU\$)	51,487	50,875	50,068
Net profit or loss (million AU\$)	▲2,375	▲2,216	▲1,303
Net loss carried forward (million AU\$)	▲24,409	▲26,059	▲26,306
The number of municipal hospitals	957	936	916
Proportion of hospitals with net loss	71%	70%	60%
Personnel expenses ratio	55.3%	55.7%	N/A
Facility Construction subsidy (2)	2,037	2,245	N/A
Total of subsidies (1)+(2)	8,488	9,157	—

Complaint of municipal hospitals with net loss

Medical reimbursement fees are too low.

Services for safety-net function are badly unprofitable.



What is the fact?

What is Social Medical Corporation (SMC) ?

SMC was created by Medical Law Amendment in 2007
The number of SMCs is 111 as of November 2010

- SMC should not be owned by individuals.

If a private medical corporation wants to be SMC, the owners must donate their stakes to the public.

- SMC must carry out one of the five safety-net functions,

- ① Emergency medical service,
- ② Medical service for disaster
- ③ Perinatal period medical service,
- ④ Pediatric medical service
- ⑤ Medical service in remote regions



Corporate income tax rate

30 % → 0 %

+

Inheritance tax rate

30 % ~ 50% → 0 %

Difference between Public Hospitals and SMCs

	Municipal Public Hospitals	SMCs
Services for safety-net function	YES	YES
Government subsidies	9,157 million AU\$ < FY 2008 >	0
Operating results	Huge loss	Profit
Personal Expense Ratio to Patient service revenues	55.7 % < FY 2008 >	Less than 50 %
Vertical integration with various function facilities	NO	YES
Decision making integration and Efficient governance	NO	YES

Total Operating Results of 107 SMCs

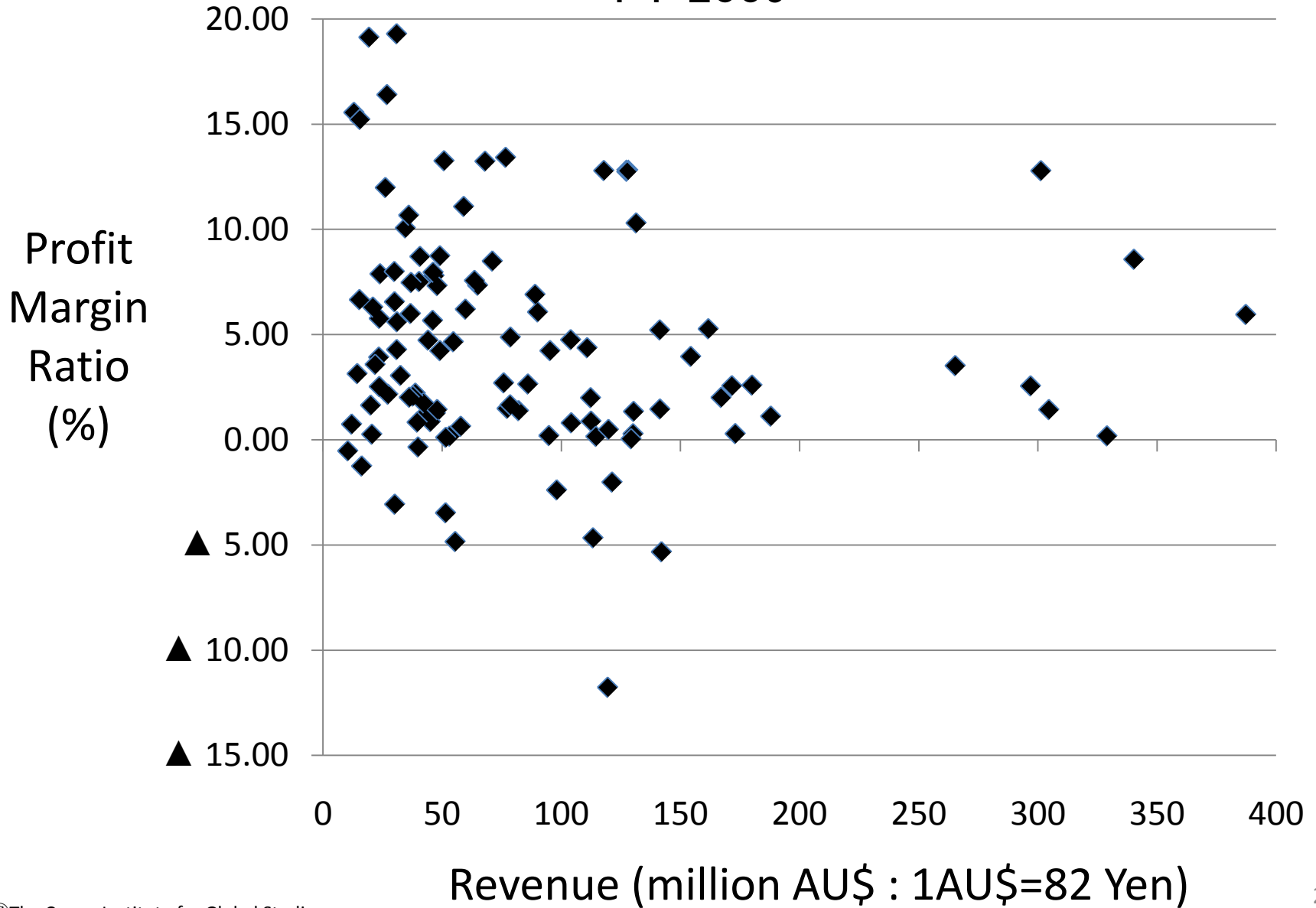
	FY 2009	FY 2008
Total Revenues (1) Million AU\$	9,090	8,597
Total Profit (2) Million AU\$	344	221
Profit Margin Ratio (2) \div (1)	3.8%	2.6%
Total Assets (3) Million AU\$	9,469	-
Total Net Assets (4) Million AU\$	3,399	-
Net Assets Ratio (4) \div (3)	36%	-

◆ 1 AU\$ = 82 Yen



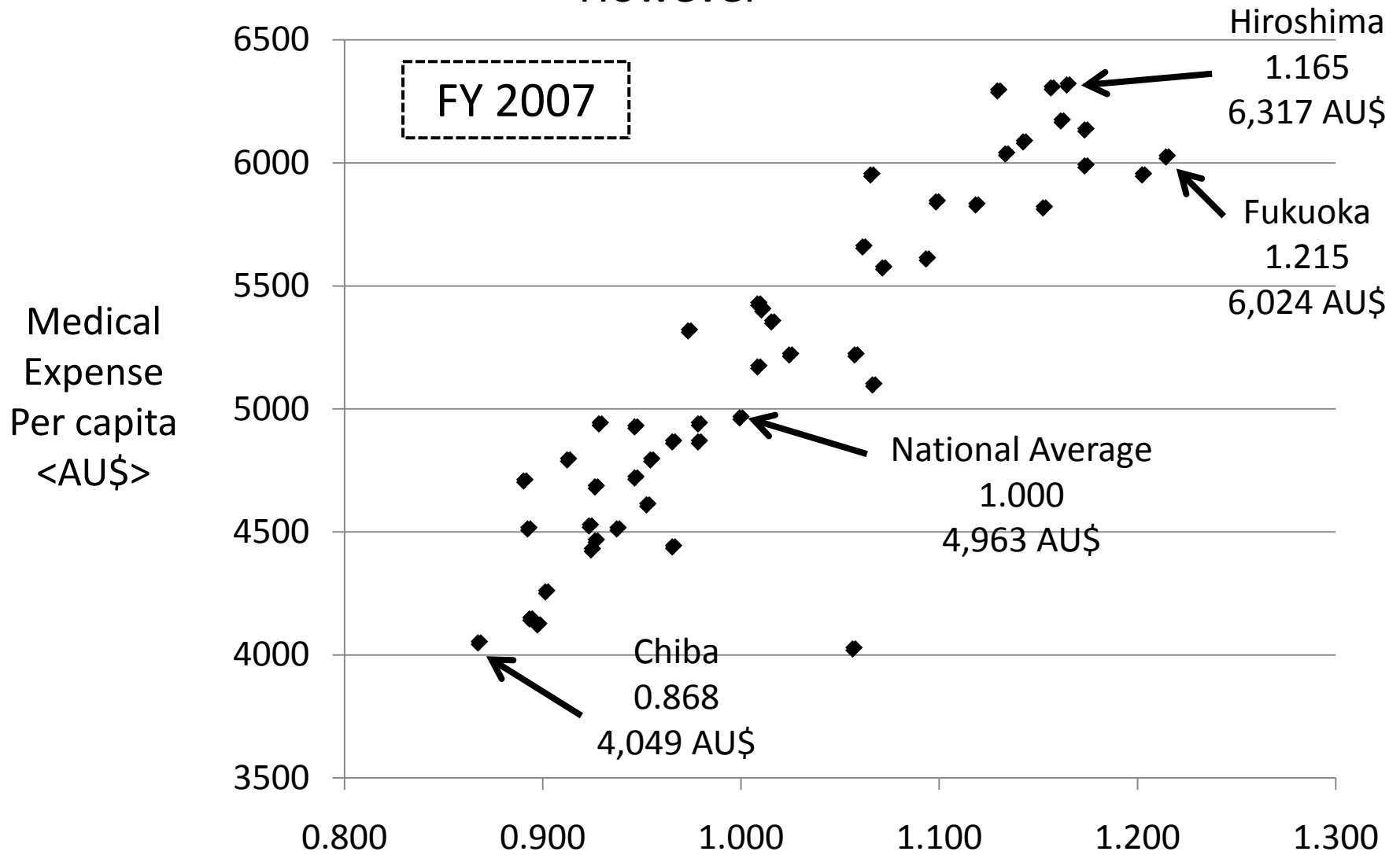
While they contribute to safety net function without government subsidies, SMCs can make profit.

Operating Results of 107 SMCs - FY 2009 -



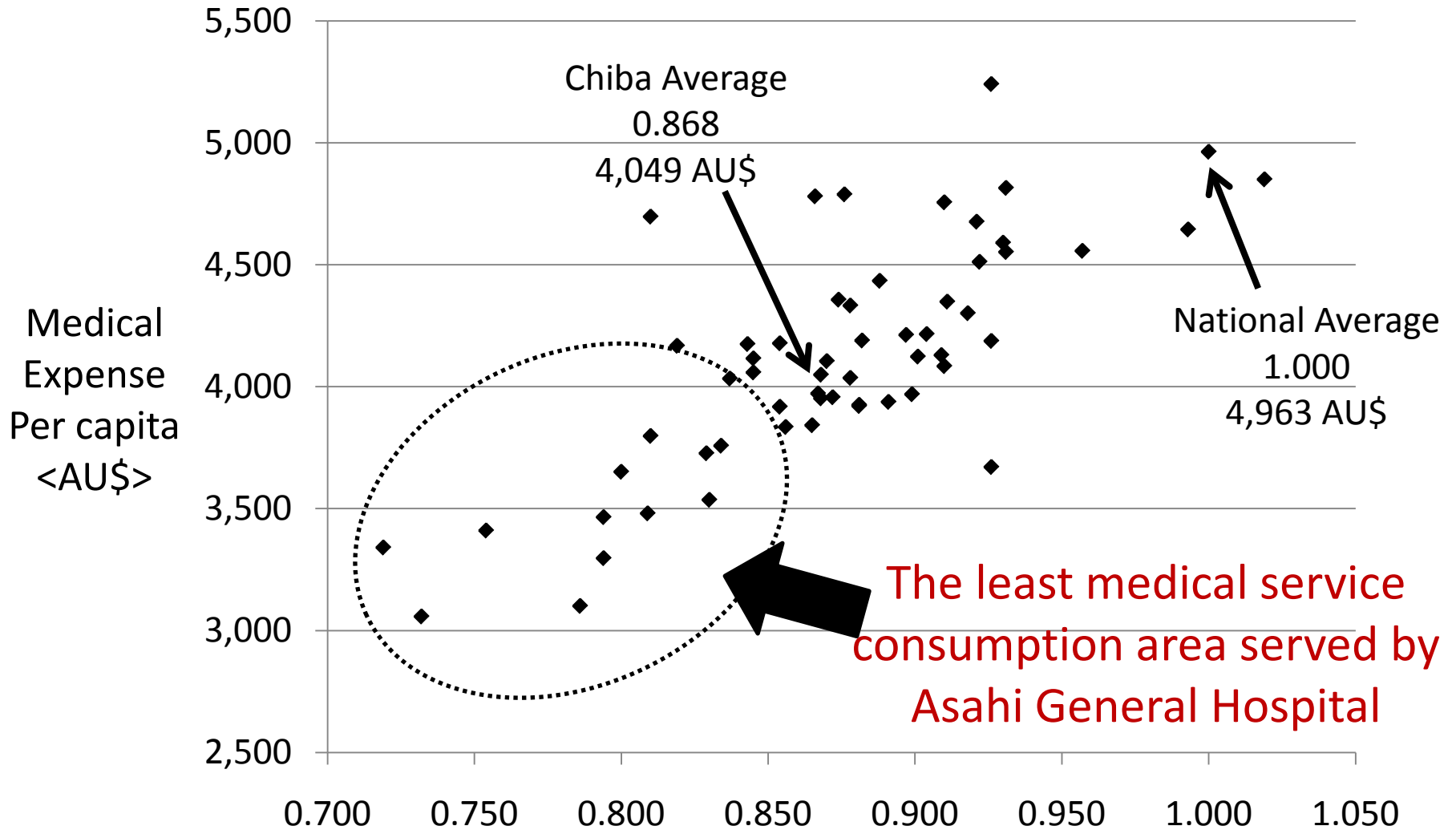
Medical reimbursement fee is the same all across the country.

However ----



Age distribution adjusted medical expense area difference Index

Big difference among cities & towns in Chiba



Age distribution adjusted medical expense area difference Index

④ Targets for economic growth

Government economic growth plan is misleading

The Cabinet issued “New Growth Strategy” June 2010.

An eye-catching policy in healthcare industry is to raise funds by getting foreign patients through medical tourism.



The medical tourism market in Asia is too small for Japan to get enough fund to cope with its health system financial shortage.

< Business size of successful hospital corporations in Asian medical tourism >

Fortis Healthcare	210 million AU\$
Apollo Hospitals	415 million AU\$
Parkway Health	760 million AU\$
Bumrungrad International	320 million AU\$
Total	1,705 million AU\$

The world has already moved from medical tourism to direct export of hospitals & medical school

	Revenues of it's own or affiliated IHN	Profile
Harvard University	9,700 Million US\$	Consultant for Dubai Healthcare City Partners Healthcare (7,600 million \$) and CareGroup (2,100 million \$) The world brand healthcare cluster
Cornel University	9,200 Million US\$	Consultant for a medical school & hospital in Qatar. Establish IHN (New York-Presbyterian Healthcare System) with Columbia University
Mayo Clinic	7,600 Million US\$	The world brand healthcare cluster
Cleveland Clinic	5,300 Million US\$	IHN growth strategy by consolidating local hospitals Establish subsidiary hospitals in Canada and Abu Dhabi
M.D. Anderson	2,800 Million US\$	No.1 healthcare cluster for cancer Establish a subsidiary hospital in Turkey
UPMC	7,700 Million US\$	The fastest growing healthcare cluster . Establish the subsidiary facilities in several countries.

International Balance of Payments of Medical Industry (1)

Pharmaceutical products

(Million AU\$: 1AU\$=82Yen)

		1990	2000	2008
Domestic production		68,237	72,284	80,733
Trade balance	To US	▲ 843	439	▲ 813
	To EU	▲ 1,845	▲ 2,760	▲ 6,662
	To Others	▲ 774	▲ 367	▲ 1,823
	Total ①	▲ 3,462	▲ 2,688	▲ 9,298
Patent trade	Acceptance	305	1,054	3,511
	Payment	274	476	716
	Balance ②	31	578	2,795
Total ①+②		▲ 3,431	▲ 2,110	▲ 6,503

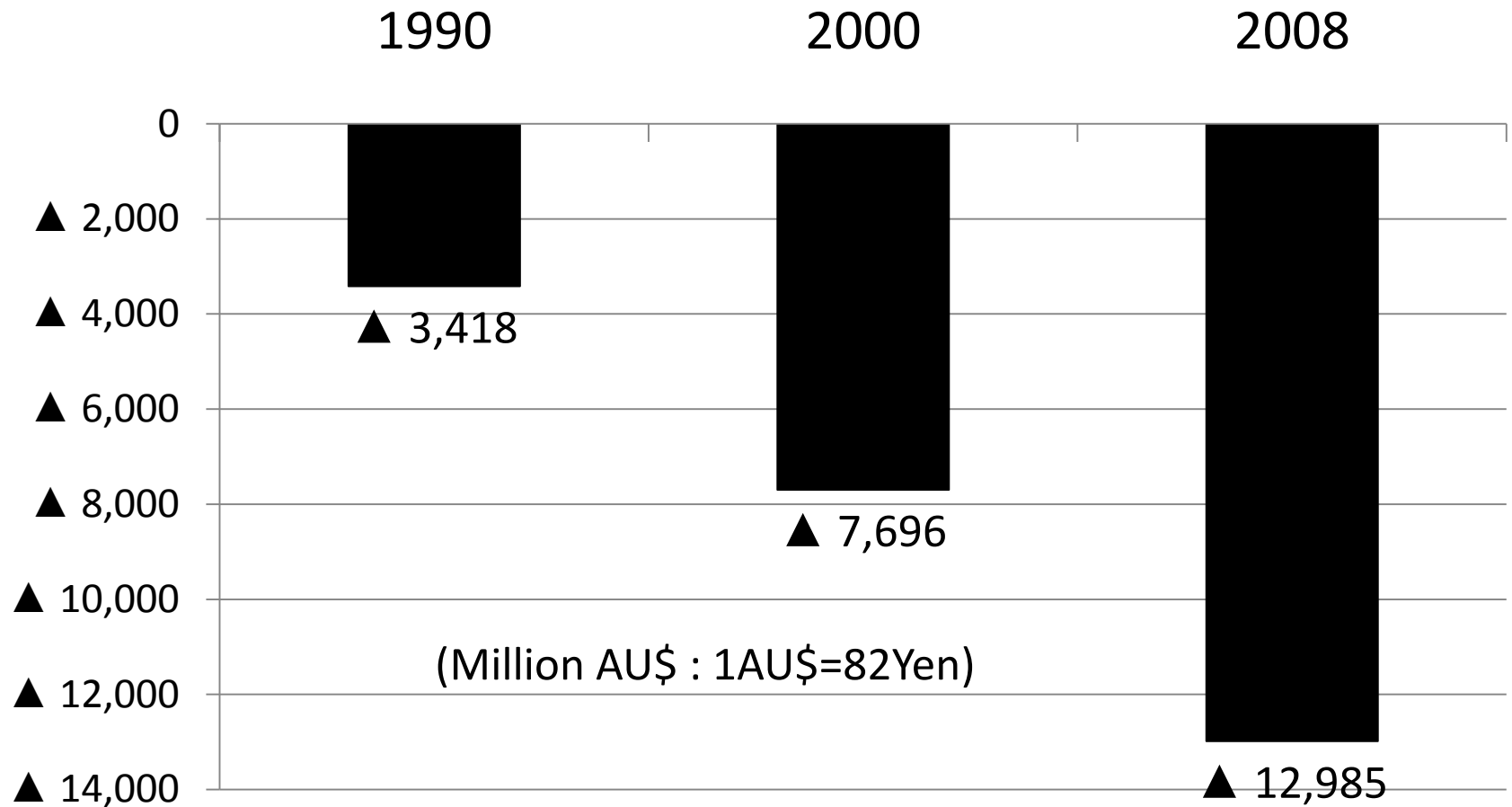
International Balance of Payments of Medical Industry (2)

Medical devices

(Million AU\$: 1AU\$=82Yen)

		1990	2000	2008
Domestic production		15,539	18,126	20,639
Trade Balance	To US	▲ 783	▲ 5,223	▲ 6,100
	To EU & Others	796	▲ 362	▲ 382
	Total	13	▲ 5,585	▲ 6,482

International Balance of Payments of Medical Industry (3) Pharmaceutical products & Medical devices



Conclusion

⑤ How to break through the Chaos

Breakthrough①

Earlier implementation of insurer's integration by each prefecture

The government is planning to integrate these fragmented insurers by each prefecture. This reform direction is correct.

Because, if a prefecture based insurer and a healthcare safety-net corporation are consolidated, we are able to create Japanese version IHNs all across the country.

< First Phase >

Health Insurance Societies should be dissolved to merge in Health Insurance Associations. All of the employees are insured by Health Insurance Associations



< Second Phase >

Social Security Number & Card System is implemented, by which Income Capture Rate can be improved.

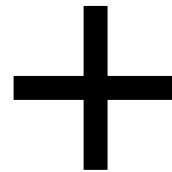
Then, Health Insurance Associations and National Health Insurances should be consolidated in each prefecture.

Breakthrough②

Amend the public health insurance into two-tier structure for additional funds

- ◆ Option Benefits should be designed as a part of the public system
- ◆ Private insurance companies can provide Option benefits under certain regulations to improve healthcare access and keep equality.

Option Benefits
Each person can chose



Basic Healthcare Benefits for the entire population

<Problem>

The intergenerational conflicts of interest have become more serious as well as the redistribution conflicts among people in different income brackets, because of the falling birthrate and the aging population.

Therefore, as long as we keep the current uniform benefits system throughout the nation, it will be more difficult to reach a consensus on health reform.



<Solution>

The government should grant each person a right of choice on the balance between benefits and premium.

The current balance may be called “Standard Plan”.

The higher premium an insured person pays, the richer benefits he or she can get. If an insured person prefers the less premium plan, he or she needs to pay more copayments at physician visit.

Breakthrough③

Integrate public hospitals by healthcare regional market

◆ **Governance type should be [Independent Public Services Corporation] or [Social Medical Corporation].**

- Local assemblies are not allowed to intervene in practical management matters
- Resistance to privatization is strong. However, if the public employees accept it, they can get the retire benefit, “59 month basic salaries and additional bonus”. In the future, the amount will be reduced due to fiscal crisis.
- By privatizing them, the governments can get relief from hospital business risk.

◆ ***If these corporations become IHNs with over 1 billion AU\$ revenues, they can keep up with technology progress and earn investment resources by themselves.***

◆ **Under the current law, a university is required to build a hospital for a medical faculty. This regulation should be abolished.**

- If an IHN becomes bigger than a university, the academic clique culture will disappear.



The government should support only the areas that are implementing the reform.