Health Reform and Economic Growth

How to pursue both healthcare cost increase and fiscal reconstruction at the same time

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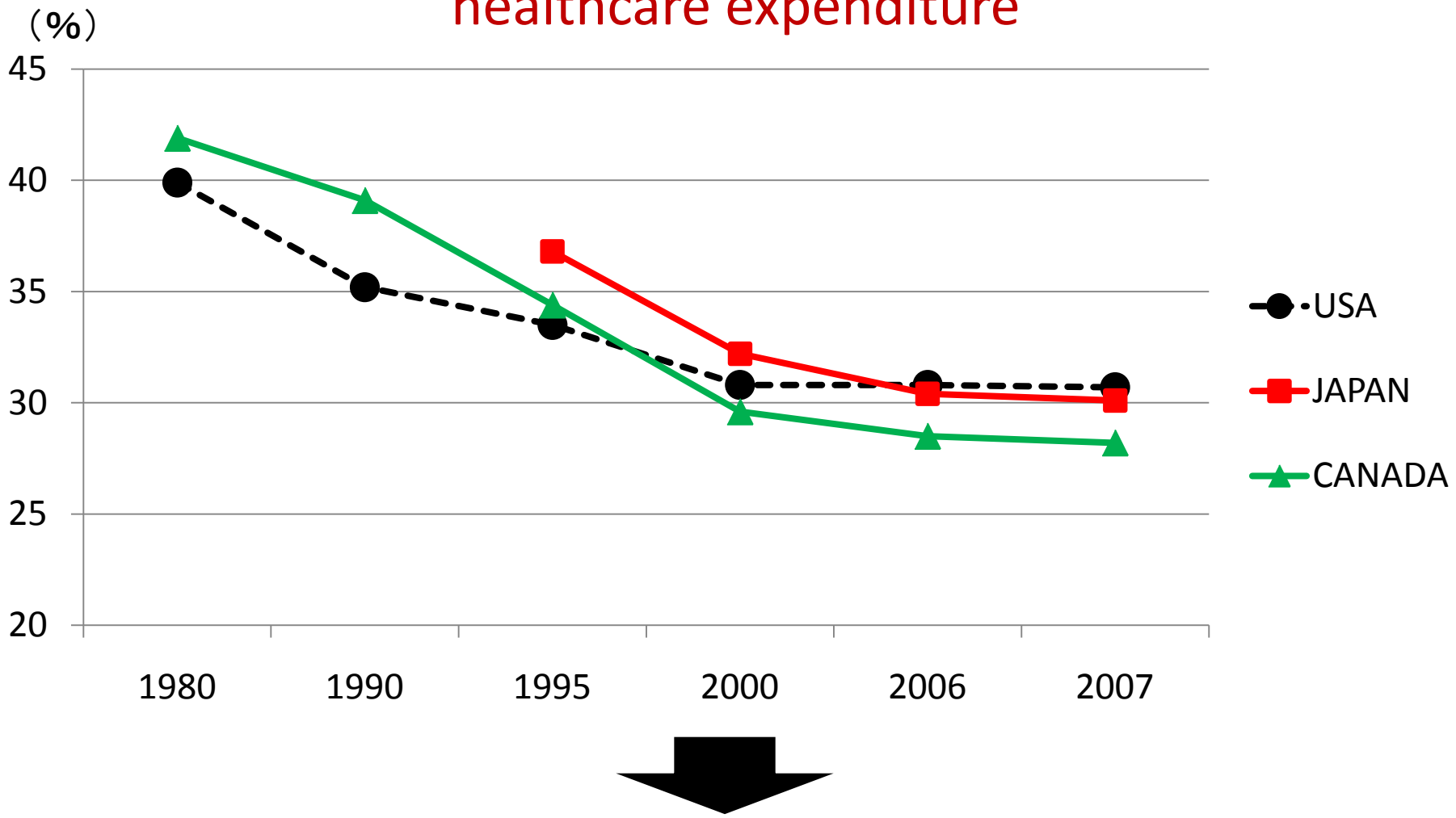
Content

Ⅰ. Raising issues

How medical technology progress impacts healthcare management

Trend of the percentage of hospital expenses to national healthcare expenditure



A stand alone acute-care hospital can not grow up well

Medical dictionary has changed the definition of hospital

～From Slee's HEALTH CARE TERMS Fourth Edition（2001）～

Hospital

The traditional definition of "hospital" is that it is a healthcare institution which has an organized professional staff and medical staff, and inpatient facilities, and which provides medical, nursing, and related services. States have specific definitions for what may be called " hospital", including, for example, a minimum number of beds, and the services which must be available.

However, in an increasing number of communities, the term hospital is being applied to a geographic region occupied by a virtual healthcare organization with multiple programs operating in multiple locations.-------

***Integrated Healthcare Network*（IHN）**

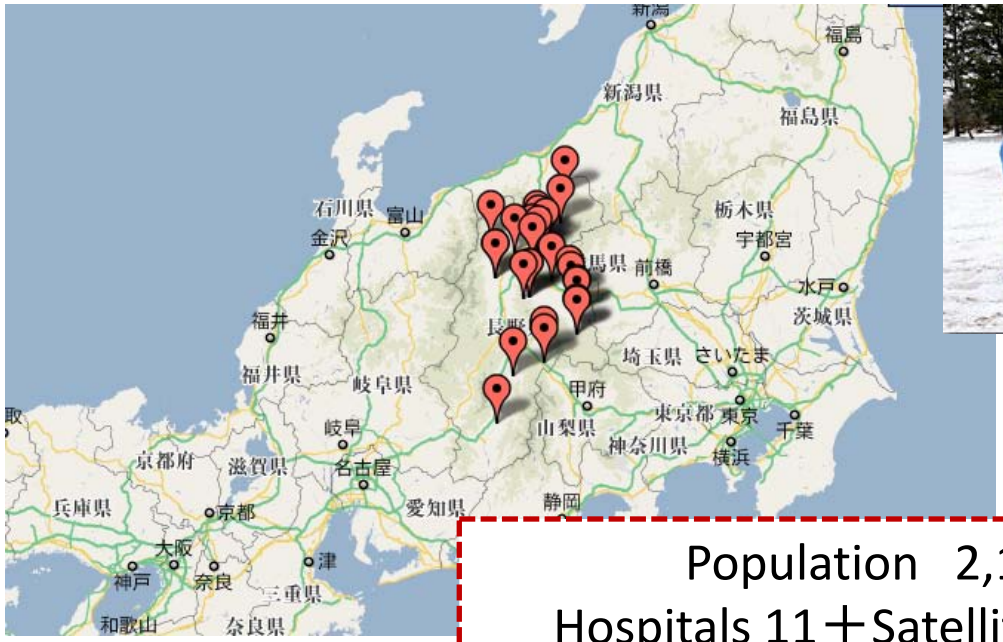
Raising issues and Key words for solution

Raising issues		Key words for solution
①Under rigid public system and fiscal crisis, is there a way to get additional funds for healthcare? ②How can Japan create new jobs in healthcare industry and stimulate economic growth? ③While healthcare is mainly for domestic market, can Japan get foreign currencies in the future? ④How can Japan establish a world-class healthcare business cluster like USA and EU? ⑤Can we absolve the governments from the management risk of national hospitals and public hospitals?	Additional funds under the current system are meaningless	(1)Option in public health insurance program Give an individual a right of choice on the balance between benefits and premium to ease up barriers to health reform (2)Vertical Integration Create a seamless healthcare delivery system by integrating safety-net healthcare organizations in a region

Ⅱ． Fallacies of Common Knowledge in Health Reform Debates in Japan

Fallacy①

Healthcare Reimbursement Rates in Japan are not too low

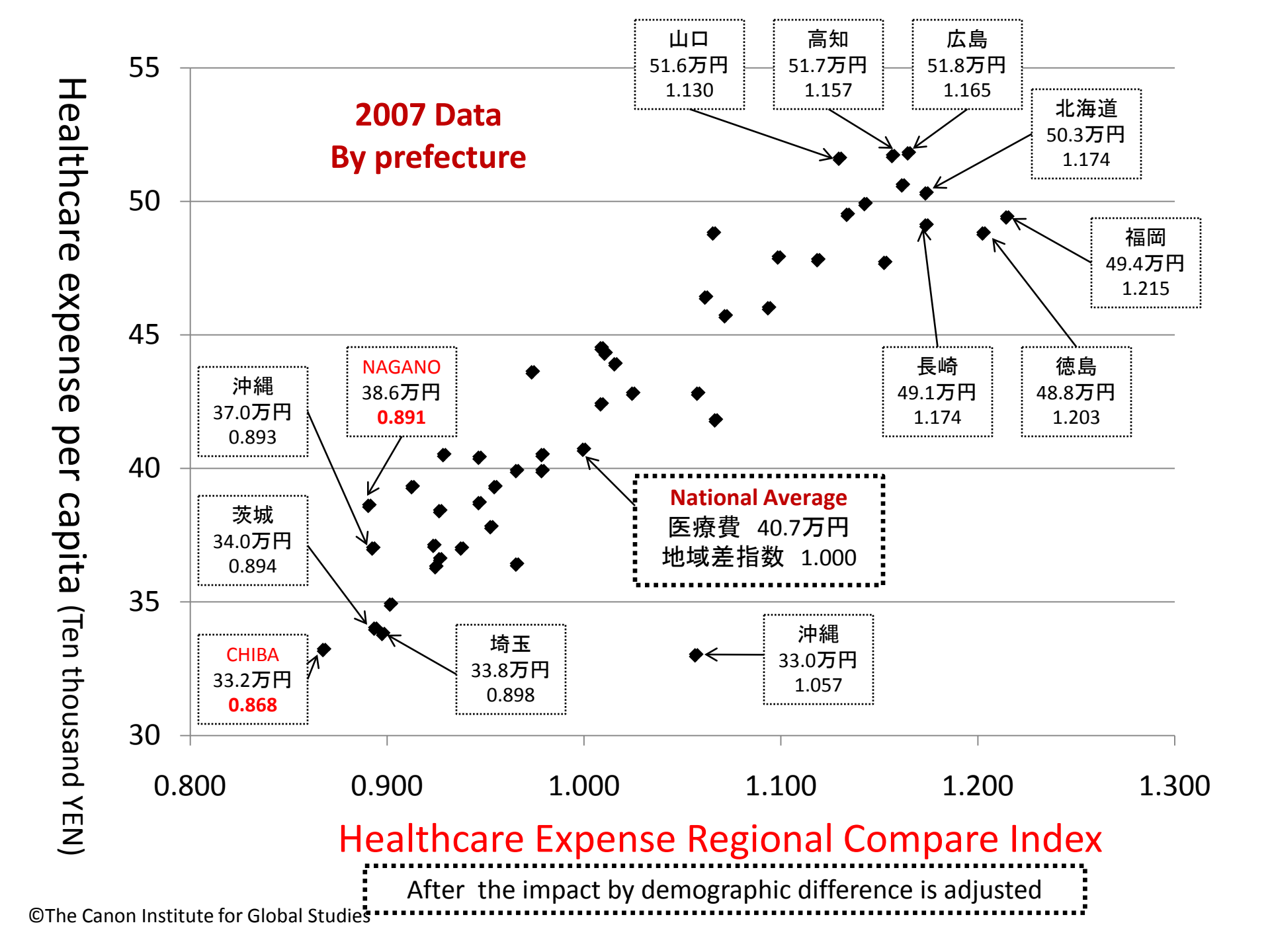


Population 2,160,000
Hospitals 11＋Satellite facilities 36

＜Nagano Kouseiren :2008＞
Revenues 870 million US$ Net Income 11million US$

Making a profit by providing full services from acute care & ER to home care

As long as the healthcare organizations in a region are vertically integrated to provide full services seamlessly, it can make a profit.



Healthcare expense per capita (Ten thousand YEN)

45
40
35
30
25
20

0.700 0.750 0.800 0.850 0.900 0.950 1.000 1.050 1.100

Chiba Prefecture Average

National Average

銚子市

多古町

芝山町

山武市

大網白里町

匝瑳市

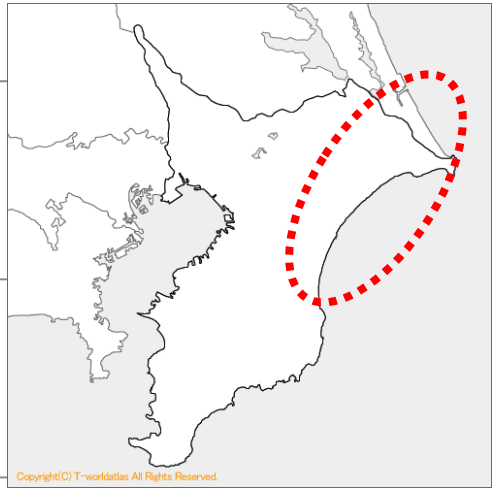
東金市

八街市

旭市

東庄町

富里市



Asahi Central Hospital can make a profit in the lowest healthcare expense region.

Healthcare Expense Regional Compare Index

2007 Data

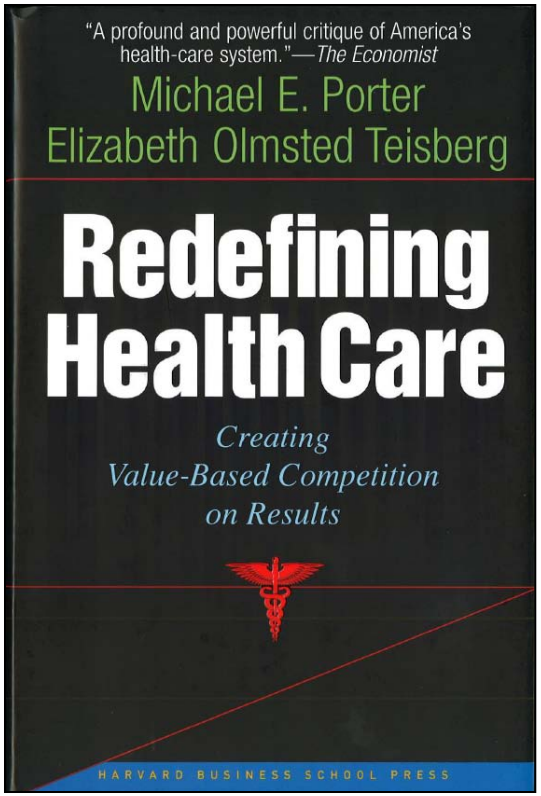
By city in Chiba Prefecture

Fallacy②

The healthcare delivery system in Japan has the highest commerciality in advanced nations.

	Public hospitals	Private hospitals	Total
Japan	1,334	7,390	8,724
		Including for profit hospitals 5,300	
USA	1,318	4,497	5,815
		Including for profit hospitals 982	
France	972	1,800	2,772
		N/A	
Germany	587	1,265	1,791
		Including for profit hospitals 526	
UK	1,101	210	1,311
Italy	735	533	1,268
Sweden	73	8	81
Canada	699	N/A	699
Australia	762	552	1,314

Whether a specified individual can take a part of profit or not (Commerciality Criterion)



Fallacy③

Integration instead of affiliation

By Dr. Porter

Integrated Practice Unit (IPU)

To develop several types of IPUs is recommended as the best strategy

＜The similar idea＞

◎ ***"Clinical Governance"***（UK, France, Germany, Canada, Australia）
⇒ being enhanced by top-down method

◎ In Japan, ***"Affiliation"*** is suggested for stroke, cancer, ER and perinatal stage.
⇒ very slow progress

＜Characteristic paradox of healthcare market＞

Healthcare organizations that contribute to quality improvement and cost savings can recover only a part of those economic benefits, while the trading partners, such as insurers and other providers, get free benefits without sharing cost.

↓

"Affiliation by contract" is effective as long as they reach a consensus. In a moment that a conflict happens, the affiliation will dissolve.

↓

If all business partners are integrated into one organization, the top executives must make a decision even when conflicts still remain.

↓

In healthcare market, "Vertical Integration" is essential for safety-net healthcare entities to continue to grow by catching up technology advancement.

Fallacy④

Neither an advocate of free market economics nor it's opponent is correct in healthcare market

Healthcare competition policy from Dr. Williamson's view

（polar opposite of interests）	（Profit allocation battle）
Insurers	Acute care hospitals
VS	VS
Healthcare providers	Non-acute providers

Delay of information sharing and clinical standardization

A key word for solution is "Vertical Integration"

Healthcare competition should be promoted among IHNs (regions)

Fallacy⑤

To reinforce the insurer's function against MDs & nurses is wrong

It is advocated that the insurer's function should be reinforced to contain the rising healthcare cost. EMR data base is essential for it. Without cooperation of MDs and nurses, EMR data base is impossible.

The objective of insurer's function is not to overlook MDs and nurses. It should be to feedback the useful analysis information to them.

No.1 EMR data base user in the world may be Kaiser Permanente, which needs no receipt work for healthcare services.
In UK, Canada and Australia, to cooperate for EMR data base is duty for medical staffs in public hospitals.

In Japan, even national hospitals and public hospitals avoid information sharing.

Fallacy⑥

EMR expenses can not be recovered only by cost savings

EMR expenses ＞ Healthcare cost savings
（decrease of duplicated test, miss）

Then, why do EU, USA, Canada and Australia invest aggressively?

EMR expenses ＜ Cost savings＋Revenues＋Quality

To enclose patients by information sharing

To improve Clinical unifying force and Brand

Fallacy⑦

The existing private health insurance in Japan should not be allowed to substitute for public health insurance.

（Reasons）

①The Ratio of loading to insurance premium is too high (around 20 %)

② Cream skimming ⇒ underwrite only healthy applicants

＜Solution＞

By law

- ◆ Force the insurers to use “community
- ◆Standardize the benefit package

Fallacy⑧

Healthcare Custer is not equal to building many facilities in one site

Japan	◆So-called healthcare clusters in Japan are built by subsidies. Many facilities are located in a small area ◆MDs, researchers and patients have not come there. The Japanese healthcare clusters are not known overseas
USA	●Healthcare clusters in USA are based on IHN that are famous for world brand clinical level. MDs, researchers, patients come from all over the world. ⇒Financial resources can reproduce by themselves. ⇒Revenues of IHNs range from 5 billion $ to 10 billion $ The number of employees range from 30,000 to 50,000. ● IHNs is independent from affiliated universities ⇒ Universities do not take business management risk of IHNs IHNs provide those universities with research funds

Clinical governance & it's unifying force is essential for Healthcare cluster brand

Fallacy⑨

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

The competitors in Asian medical tourism market have capability to enter into the target countries directly. Therefore, Japanese hospital groups will be defeated without the same management skill.

Company Name (Country)	Revenues ＜Profit Margin＞	Profile
Fortis Healthcare (India)	6,300 million Rupee ＜3.8%＞	自らを“統合ﾍﾙｽｹｱｼｽﾃﾑ”と称し、ｲﾝﾄﾞ国内各地に地域医療ﾈｯﾄﾜｰｸを構築。ｼﾝｶﾞﾎﾟｰﾙのﾊﾟｰｸｳｪｲﾍﾙｽに24%出資する
Apollo Hospitals (India)	14,600 million Rupee ＜8.1%＞	ｲﾝﾄﾞ国内と海外で運営する病院数50超。受入れ患者は55カ国、1,600万人。
Parkway Health (Singapore)	980 million S$ ＜12.0%＞	中国をはじめとするｱｼﾞｱ諸国のみでなくﾛｼｱ、ｳｸﾗｲﾅｻｳｼﾞｱﾗﾋﾞｱ、ｱﾗﾌﾞ首長国連邦にも直接進出。16病院を経営
Bumrungrad International (Thai)	9,300 mllion Baht ＜13.3%＞	東南ｱｼﾞｱ最大の病院（554床＋30専門ｾﾝﾀｰ）を経営。海外からの受入れ患者は、190ヶ国、年間約40万人。

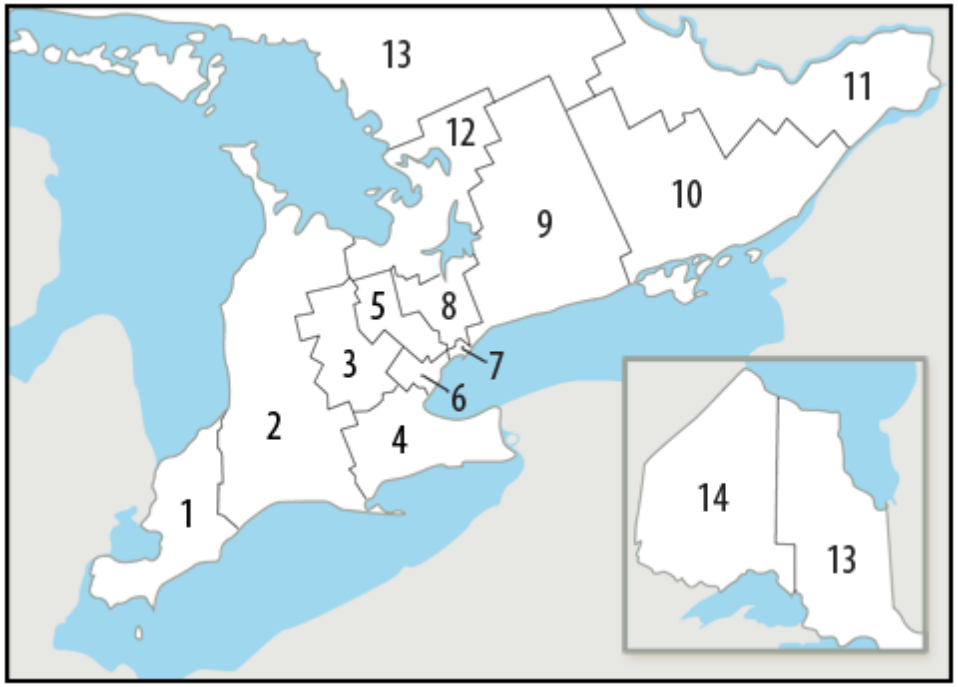
Ⅲ New Trend of Health Reform in the Advanced Nations

Ontario, Canada

Local Health System Integration Act. 2006 was enacted

Ontario with 13 million population sets up 14 LHINs

LHIN=Local Health Integration Network



◆The LHIN governance boards should make decisions from the view of a whole healthcare district, instead of a stand alone hospital management.

◆The main function of LHINs is to coordinate among healthcare delivery entities.

They do not delivery healthcare services by themselves.

France

The new law on regional healthcare governance was passed July, 2009

LOI n° 2009-879 du 21 juillet 2009 portant réforme de l'hôpital et relative aux patients, à la santé et aux territoires

＜Objectives of reform＞

① Enhance the regional healthcare governance

②Integrate the management of inpatients, outpatients, social care and etc.

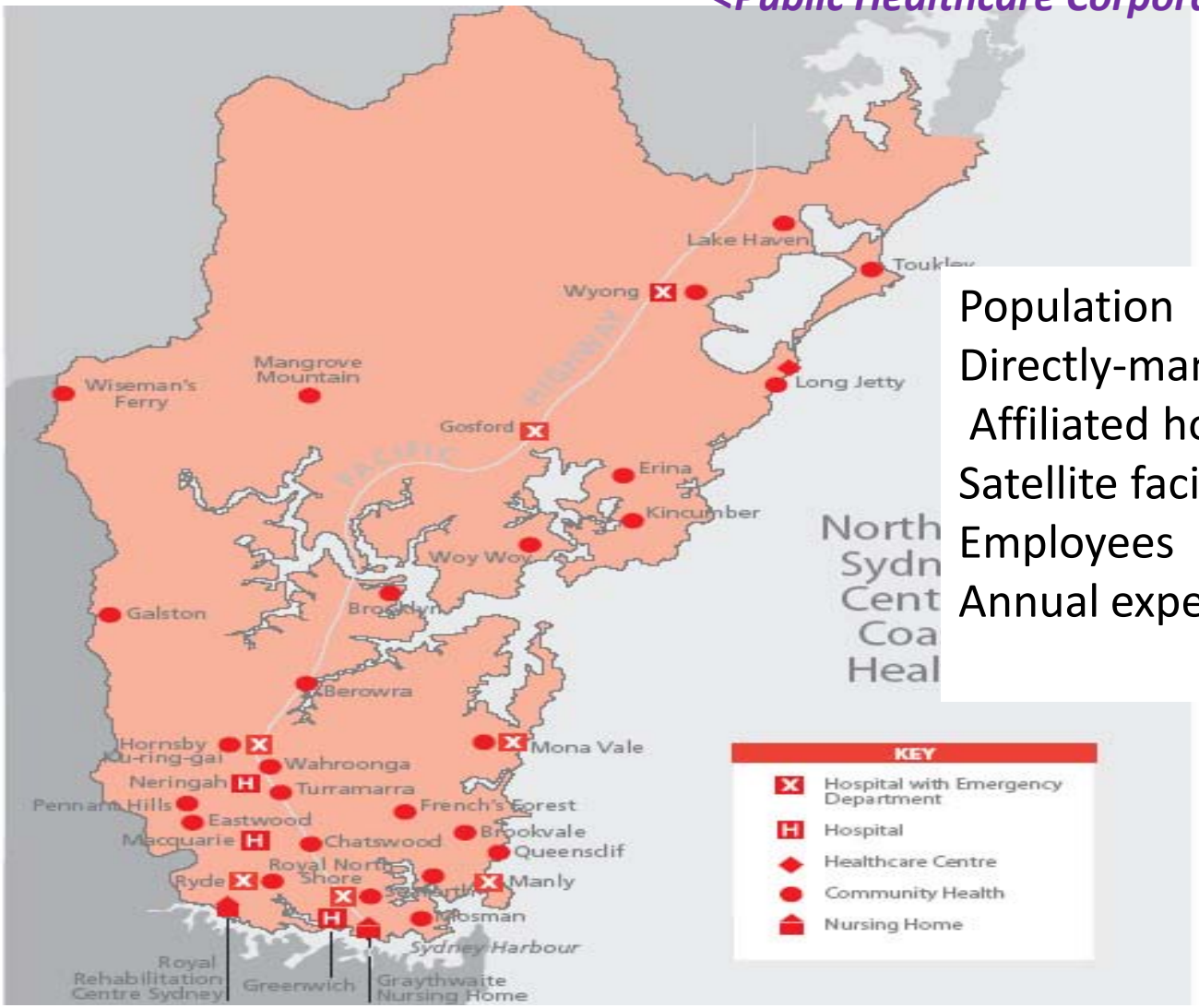
③Enrich the importance of primary care in health system

～“one-stop-shop”healthcare delivery system～

26 ARS was set up as governance authorities

Facilities location example of the Area Health Service in NSW, Australia

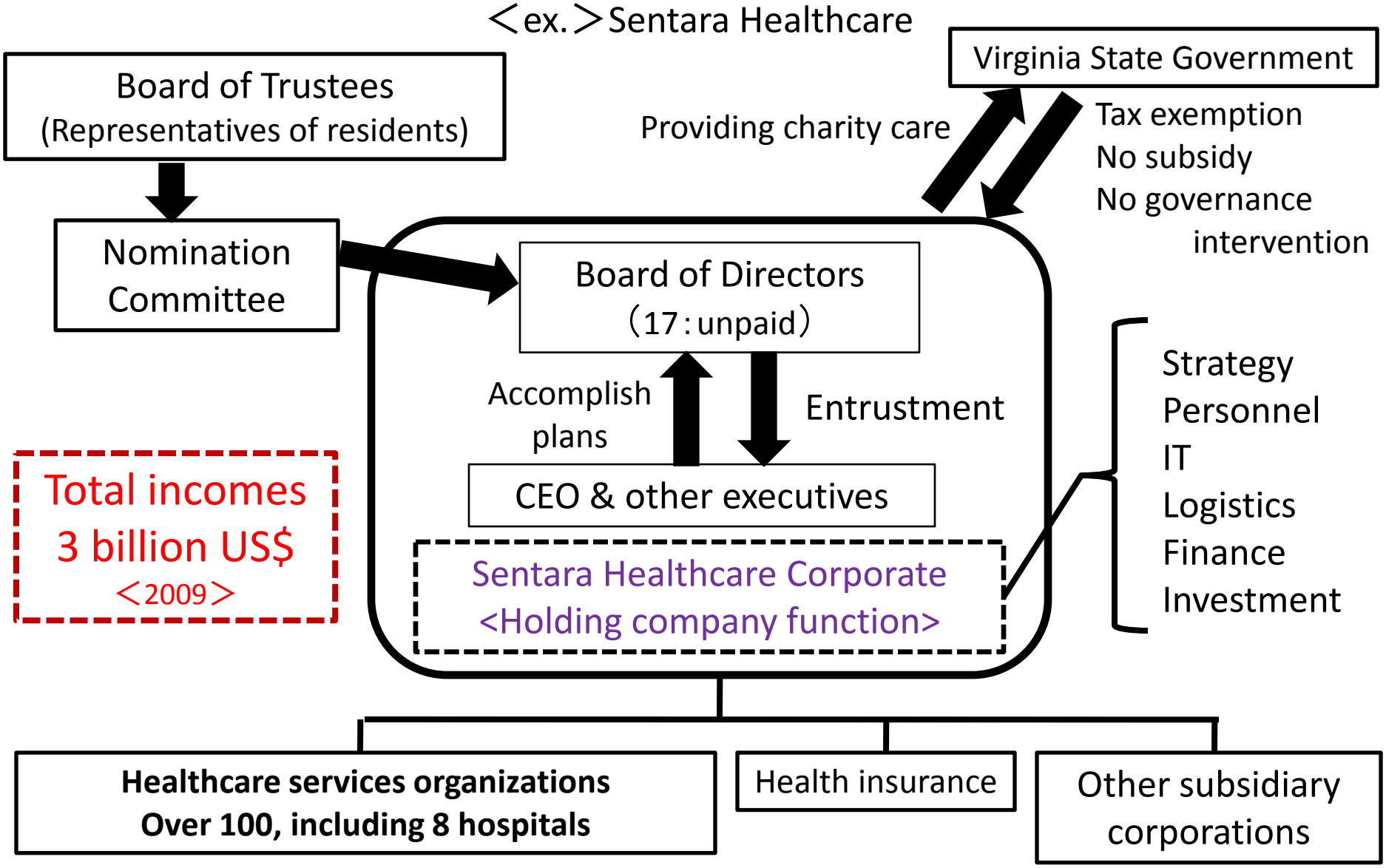
<Public Healthcare Corporation>



Population over 1 million
Directly-managed hospitals 11
Affiliated hospitals 2
Satellite facilities 50
Employees 15,000
Annual expenses 1,658 million AU$
（Fiscal year 2008）

（Reference）Northern Sydney Central Coast Annual Report 2007-2008

Governance of nonprofit IHN in USA



Ⅳ　Defects in Healthcare Delivery System in Japan

The balance of payments of National Hospitals has been improving as a whole

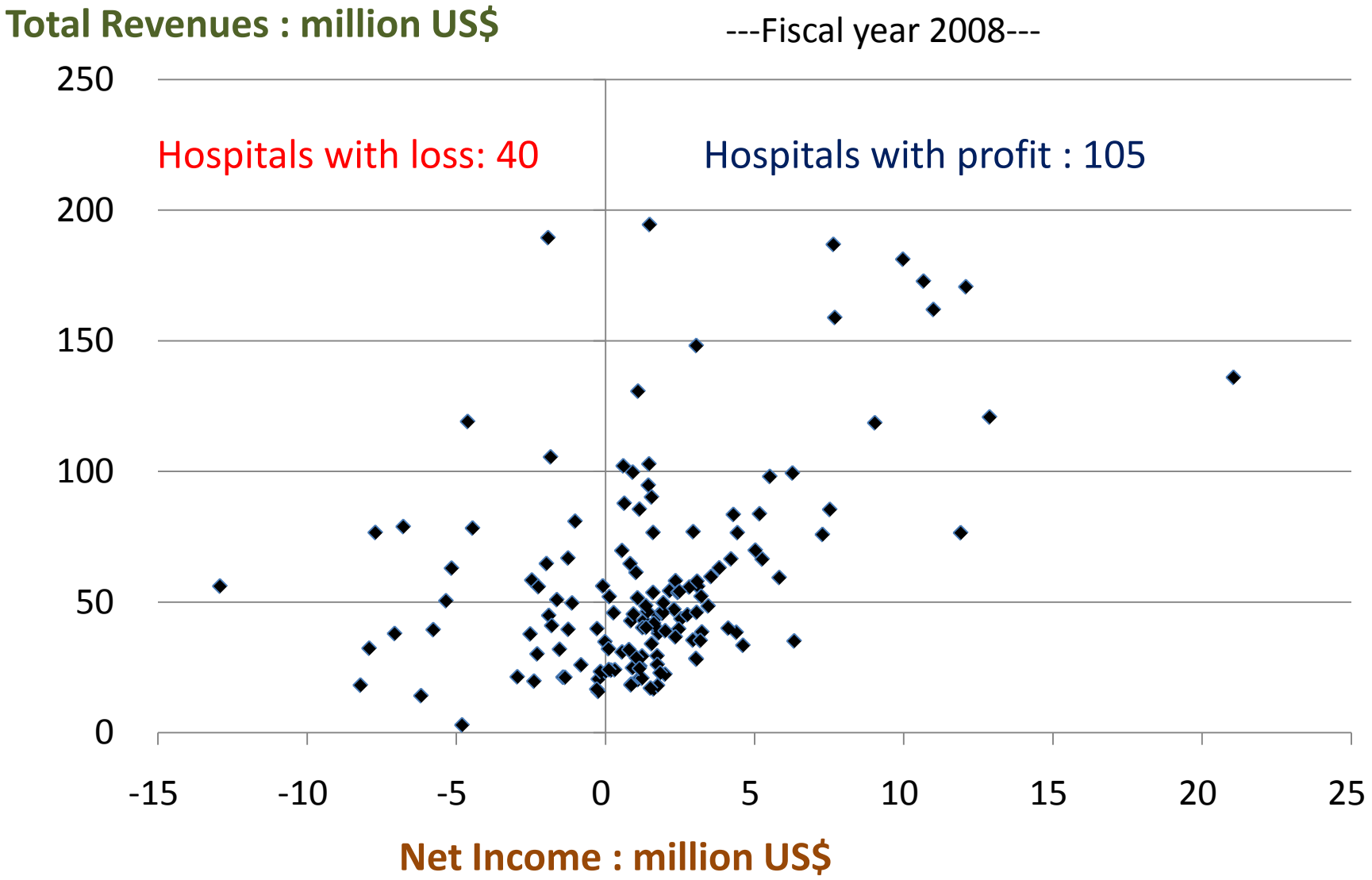
National Hospitals (145) Consolidated P/L

(Million US$: 1$=90Yen)

	2004	2005	2006	2007	2008
Operating Income	8,290	8,517	8,530	8,877	8,976
Patient service revenues	**7,585**	**7,783**	**7,778**	**8,124**	**8,232**
Operating expense Government Grants	573	566	553	544	539
Other subsidy	10	18	19	16	13
Other revenues	122	150	179	193	191
Operating expense	8,287	8,477	8,392	8,556	8,540
Operating profit or loss	2	40	138	321	436
Extraordinary income or loss	▲ 20	▲ 36	▲ 38	▲ 56	▲ 103
Net profit or loss	**▲ 17**	**4**	**100**	**265**	**333**

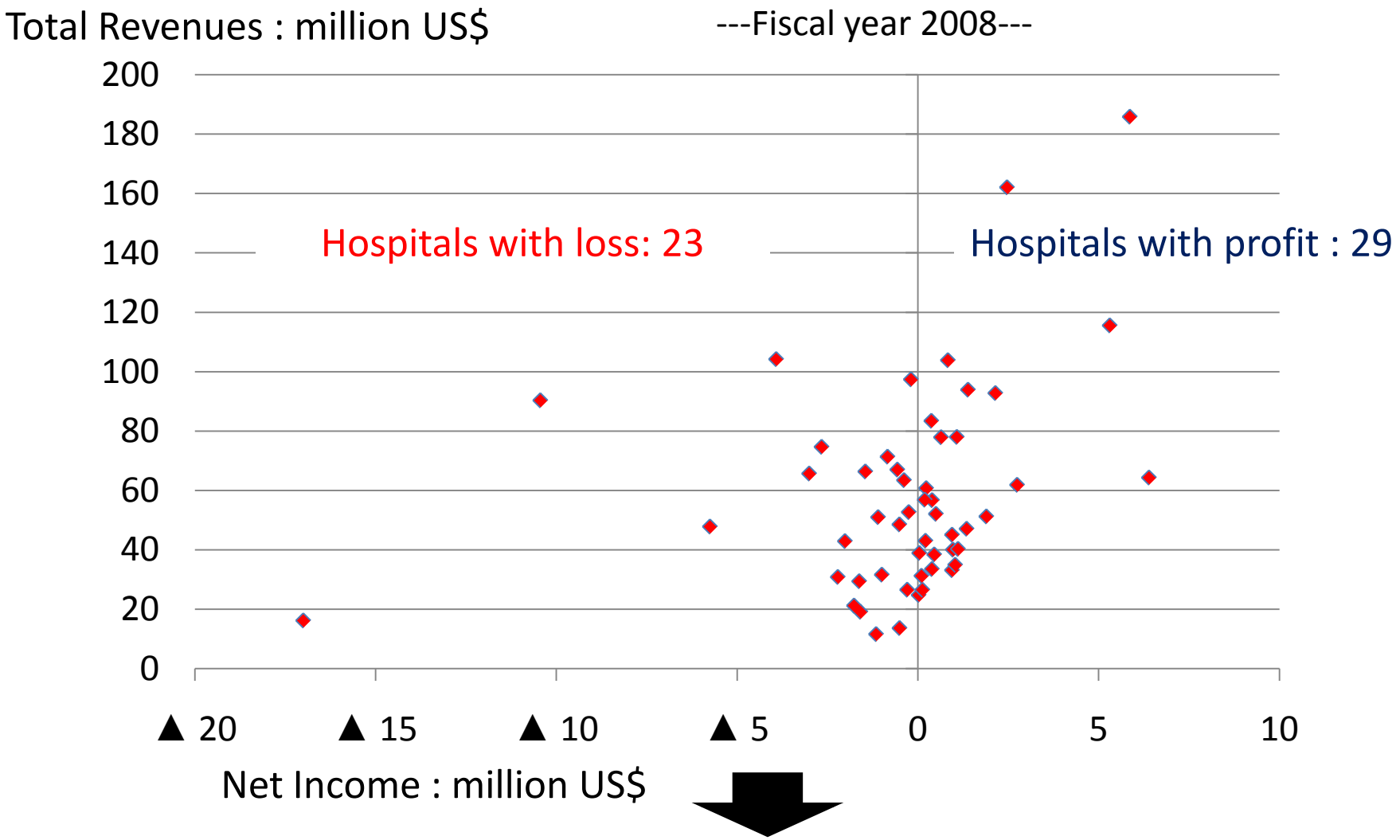
National Hospitals (145)

Most of them are small-and-medium-sized hospitals / 40 hospitals with loss



Social Insurance Hospitals (52)

The Rescue Bill was scrapped in political chaos, June 2010



Instead of rescuing a hospital individually, we should consider how to maximize the utilization of existing healthcare resources.

Total of municipal hospitals

(Million US$: 1$=90Yen)

	2005	2006	2007	2008
Total income (million US$)	46,160	44,544	44,747	44,334
Patient service and etc	40,331	38,707	38,869	38,037
Operating expense subsidy (1)	5,829	5,838	5,878	6,298
Total expense (million US$)	47,801	46,750	46,910	46,352
Net profit or loss (million US$)	▲1,641	▲2,206	▲2,163	▲2,019
Net loss carried forward (million US$)	▲19,800	▲20,818	▲22,239	▲23,742
The number of municipal hospitals	982	973	957	936
Proportion of hospitals with net loss	67%	77%	74%	71%
Facility Construction subsidy (2)	2,033	1,986	1,857	2,046
Total of subsidies (1)+(2)	7,862	7,823	7,734	8,343

Total of national university hospitals (46)

(Million US$: 1$=90Yen)

	2007	2008		
	Total	Total	Average of 46 hospitals	**Tokyo University Hospital**
Total income	10,046	10,453	227	618
Patient service	7,886	8,298	180	415
Government subsidy	1,812	1,781	39	138
Subsidy tied for hospital	408	342	7	N/A
General subsidy	1404	1,439	31	N/A
Research fund	124	134	3	26
Donation	71	79	2	22
Other revenues	152	161	4	17
Total expense	9614	10,023	218	588
Net profit or loss	431	430	9	30

Universities are forced to use "General subsidy" for covering hospital loss due to decrease of "Subsidy tied for hospital"

Ⅴ　Breakthrough for Healthcare New Deal Project

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Badly fragmented health insurance system

Age	Health insurance classification		The number of insurers	The number of insured persons (thousand)
0 ~ 74	Health insurance for persons in employment	Health Insurance Association	47	36,294
		Health Insurance Society	1,518	30,860
	Seaman health insurance		1	157
	Benefit association	National public employees	21	9,374
		Local public employees	55	
		Private education employees	1	
	National health insurance	Municipality	1,804	46,881
		National health association	165	3,843
75 ~	The latter-stage elderly health system		47	13,075

The total number of insurers 3,659 ⇒Average of insured persons 35,000

The number of insured persons for 0 ~ 74 is as of March 2008.

The number of insured persons for 75 ~ is as of April 2008, when the latter-stage elderly health system started. The data for 0 ~ 74 as of March 2008 includes the data for 75 ~.

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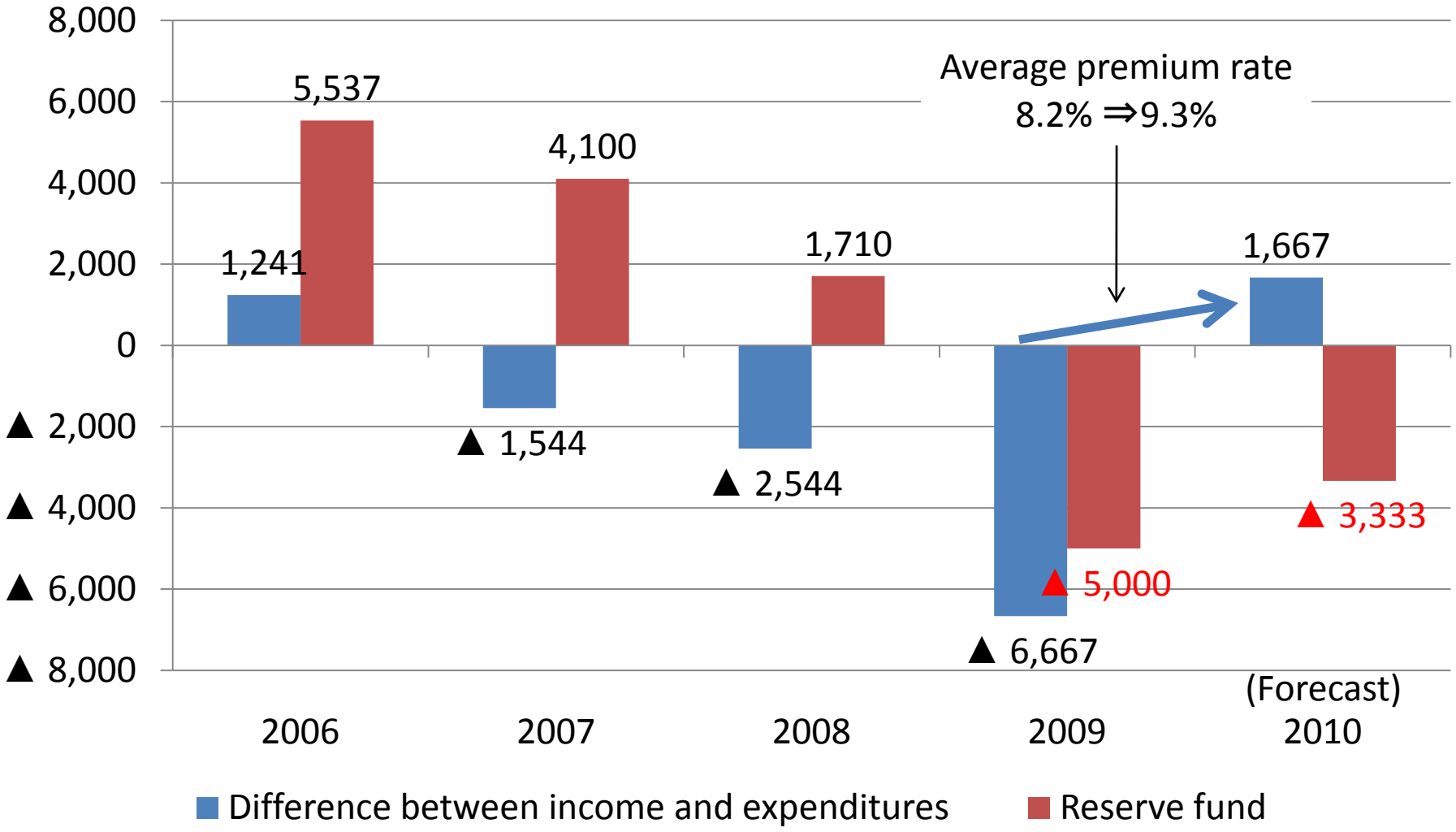
Reserve fund of Health Insurance Association gets into a minus zone



Breakthrough①

Early implementation of insurer's integration by each prefecture

◆The health insurance system is badly fragmented. There are over 3,600 insurers, most of which suffer from negative reserves. There are several types of insures such as Health Insurance Association, Health Insurance Society, National health insurance and etc. In 2010, the health insurance law was revised to force Health Insurance Society to support Health Insurance Association fiscally. However, such fiscal adjustment is not sustainable anymore.

◆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 benefits corporation<specified later> are consolidated, we are able to create Japanese version IHNs all over the country.

＜First Phase＞

 # Health Insurance Society is dissolved
 # All of the employees are insured by Health Insurance Association

＜Second Phase＞

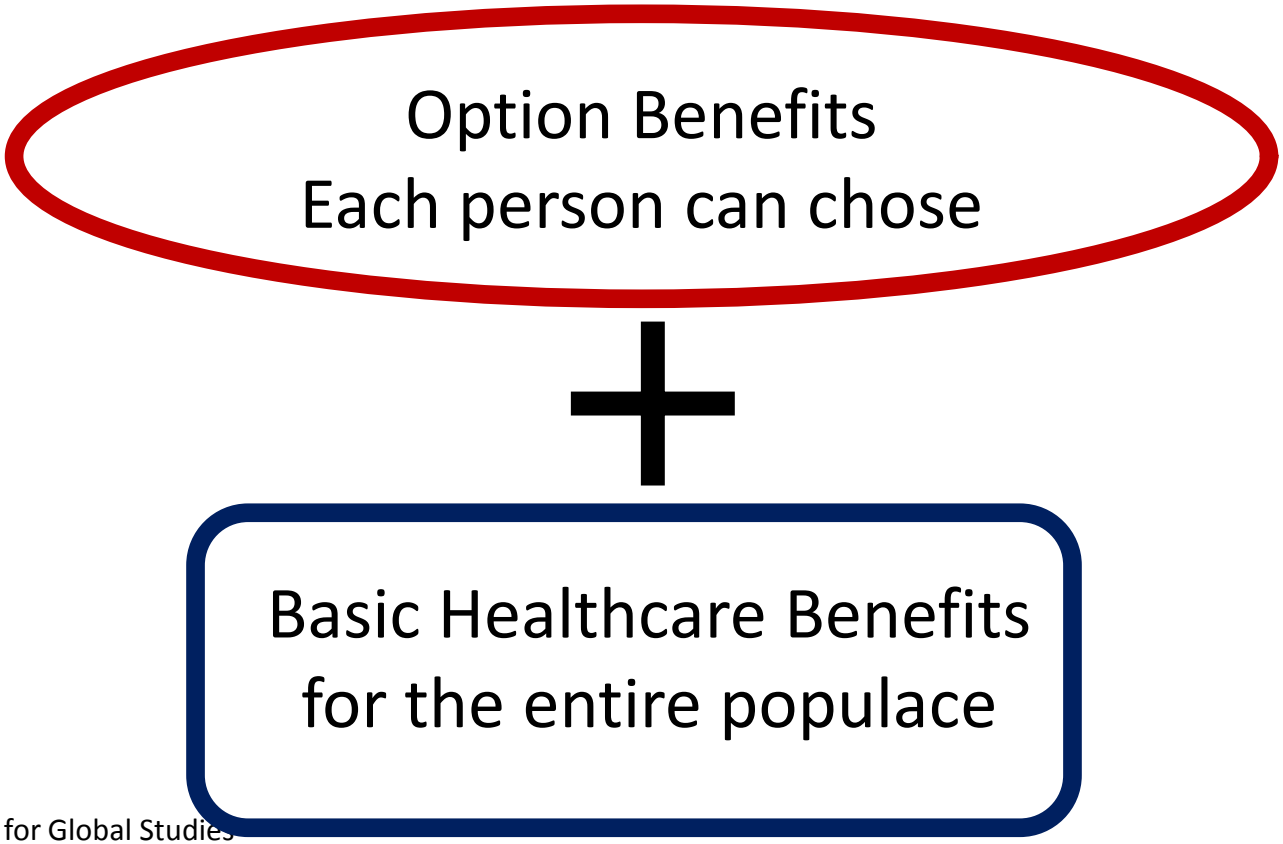
 # Social Security Number & Card System is implemented, by which Income Capture Rate can be improved.
 # Then, Health Insurance Association and National Health Insurance should be consolidated.

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 level regulations.



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

Establish Healthcare Public Benefit Corporations that should be independent financially from the government

Integrate national & public hospitals by each district and privatize them

◆Governance should be Independent Public Services Corporation or Social Medical Corporation.

(Social Medical Organization is set up by Medical Law Amendment in 2007.)

⇒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.

◆If these corporations become IHNs with over 1 billion $ 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 school clique culture will disappear.

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