

# Characteristics of Japan's Healthcare Systems and the Problems

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Yoshio UETSUKA\*<sup>1</sup>

## The History and Development of the Japan Society of Healthcare Administration

During the 1960's a small number of medical schools in Japan started to establish a department of hospital administration—the Keio University School of Medicine, the Tohoku University School of Medicine, to name a few. The main objective of these departments was to study hospital management and develop effective tools for the hospital administration.

Since its establishment in 1963, the mission of the Japan Society for Healthcare Administration (JSHA) is to conduct multi-faceted research in the areas of health, medical care and social services so as to contribute towards the advancement of society and the improvement of human welfare. In 2008, the society changed its name from the Japan Society for Hospital Administration to the Japan Society for Healthcare Administration, because the Society's aim is not only limited to managing hospitals, but also includes investigating the social and cultural framework for healthcare and health economics in the country.

## Japan's Stagnant Economic Growth and Expanding Healthcare Costs

**Figure 1** shows the increase in the annual percentage of national healthcare expenditure (NHE) in the gross domestic product (GDP) of Japan. NHE, calculated by the government, is the total amount for all healthcare services funded by the public health insurance, general revenues and patient copayments.

If the economy had grown at a rate similar to

that of NHE, there would not be much cause for concern. In fact, for the period of 1974 to 1990 on average, NHE increased 5% annually compared with 4.2% increase for GDP. But for the period 1991–2010, after the so-called “bubble economy” burst, the average GDP growth rate is down to 0.9%.<sup>1,2</sup>

Therefore, the healthcare share of the economy inevitably has increased in these last few decades, although the share of NHE to GDP is still less than most OECD countries<sup>3</sup> (**Fig. 1**).

## Pressure for Cost Containment

The medical fee schedule, which sets the prices for all procedures, drugs, devices, etc., is revised every two years. The revisions are politically negotiated at the Central Social Insurance Medical Council (CSIMC) consisting of healthcare payer representatives, healthcare provider representatives, and neutral members representing public interest. But in recent years the Ministry of Finance (MOF) and the government practically decide the actual rate of rise or cut for the medical fee schedule revision. For example, currently NHE is 39 trillion yen (approx. 487.5 billion USD; 1 USD = 80 yen), and about one quarter of the total healthcare expenditures comes from national tax revenues. If the government wants to raise the fee schedule by 1%, the MOF must put 100 billion yen (1.3 billion USD) more into healthcare. It is difficult to find such resources in Japan's current financial state (**Fig. 2**).

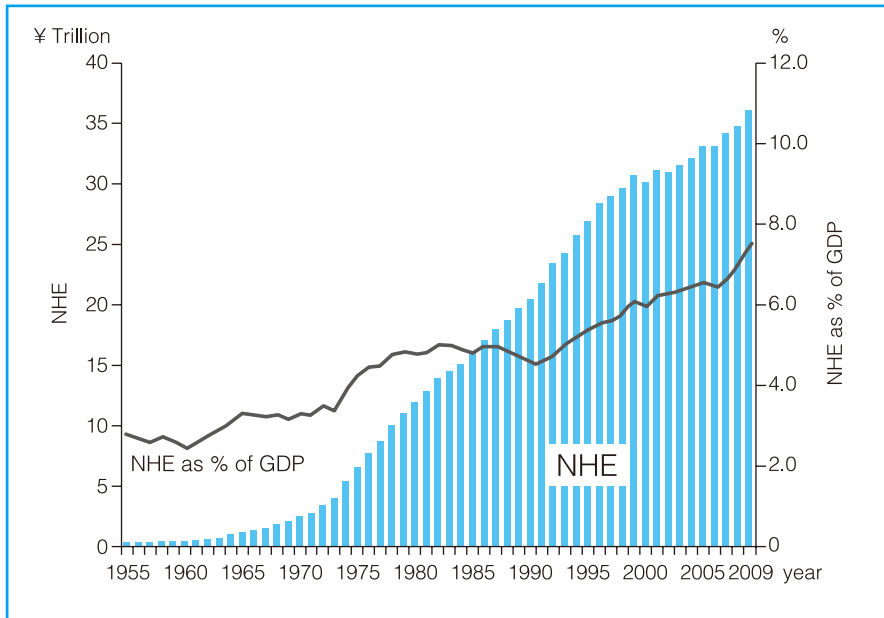
## Medical Fee Schedule

As stated before, the medical fee schedule sets the value for all procedures, drugs, devices, and

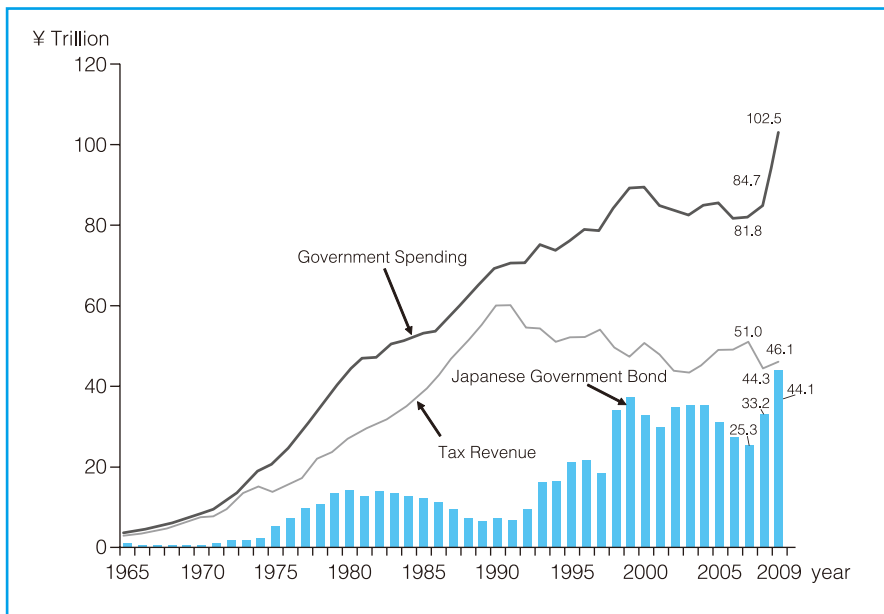
\*1 Professor, Healthcare and Hospital Administration, Tokyo Women's Medical University, Tokyo, Japan (muetuka@hij.twmu.ac.jp).

so forth, and it is uniformly applied to all reimbursement policies in all hospitals and clinics. The government's fee schedule policy has obviously

constrained the price so far.<sup>4</sup> For example, the consultation fee for a second visit and after is set at 690 yen (9 USD). Probably nobody will regard



**Fig. 1 National Health Expenditure (NHE) as a share of Growth Domestic Product (GDP) in Japan between 1955 and 2009**



**Fig. 2 Financial State of the Japanese Government**

Note the gap between the tax revenue and the Government spending in recent years. The bars below means the issue of the Japanese Government Bonds. Note the rapid increase in the recent year.

this as a reasonable rewarding for a consultation by medical professionals. This figure is not calculated according to the actual cost; it is derived from dividing the net healthcare budget by the total count of all procedures (adjusted differently among procedures and by the volume). Thus, frequent procedures are priced extremely low.

Under the medical fee schedule for authorized drugs, new drugs are given higher reimbursement. The rationale for this policy is to stimulate product innovation by setting higher prices for newly listed drugs. In 2011, the government rewarded industries by giving a premium for innovativeness and usefulness.

Pharmaceutical industries sell their pharmaceutical products at a price somewhat below the reimbursement price. So, it gives physicians incentive to prescribe and dispense drugs, which offer more margins for the prescribing physicians. But this will eventually lower the reimbursement price of the same products because the new reimbursement price is calculated by adding a reasonable adjustment zone to the weighted average marketing price obtained from surveys.

### Health Insurance Systems and Its Problems

Japan's insurance plans are divided into two systems. First is the insurance system for employees and their dependents, in which the premiums are divided equally between employer and employee. Second is the insurance system for the self-employed and their dependents. Both types of systems are on the verge of collapse, due to the heavy burden incurred in order to cover for healthcare costs by the elderly aged 75 and over. Compensating this accounts for nearly half of the employer-based insurance system's revenue.

### Price Disparity of Medical Devices Between Japan and Abroad

The Japan External Trade Organization (JETRO) published a report entitled "Survey on Actual Conditions regarding Access to Japan" in 1996. This paper clearly acknowledged the price disparity of medical devices between Japan and foreign countries. Since then a few more reports have presented the same results. Seven years ago, the reimbursement price of a PTCA balloon

catheter was 4 to 5 times higher than in the USA.<sup>5</sup> It improved significantly after the introduction of the Foreign Average Price (FAP) rule to narrow foreign price differentials. Japan reduced reimbursement prices for new devices to then 2.0 times and now 1.5 times the average price of devices in the U.S., Britain, France, and Germany.

When we look back on the fact that both procedural fee (physician fee) and product prices are the official price set by the government, the former is believed to be very low and the latter is believed to be overpriced. This is the contradiction in Japanese medical fee schedule policy.

### Regulatory Affairs and "Device Lag"

Due to Japan's medical devices regulatory approval processes, which are heavily regulated under the Pharmaceutical Affairs Law (PAL), new and innovative medical devices are frequently introduced elsewhere in the world before they become available in Japan. Japanese authorities have recognized this so-called medical "device lag," and in 2008, the government issued the "Action Programs for Speedy Review of Medical Devices" that included specific action plans and goals to be met by April 2014 in order to expedite product approval processes, such as increasing the number of reviewers from 35 to 104 and completing standard reviews in 14 months and priority reviews in 10 months.

### Conclusion

The Japanese healthcare system has been cost efficient and achieved significant accomplishment in terms of longevity of life, infant mortality, and the eradication of communicable diseases. But Japan's stagnant economy and the rapid increase of the elderly population threaten the sustainability of this system.

In this article, the author discussed the characteristics of Japan's healthcare systems and its problems, such as financial allocation to social security area by the Japanese government, medical fee schedule, health insurance systems, the price gap of medical devices between Japan and abroad, and the regulatory affairs and "device lag."

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