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Five Decades of Universal Health Insurance Coverage in Japan: Lessons and future challenges

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Abstract

Japan was able to establish a universal health insurance system in 1961 because of several advantageous conditions that existed at this time. Furthermore, this was precisely the right time for Japan to implement a universal health insurance system, due to the convergence of these conditions. There were at least three such conditions when Japan established this system, in addition to a strong political will and an incremental approach toward universal coverage. First, the costs of health care were low. Second, Japan was achieving high economic growth. Third, the people shared a sense of solidarity during this difficult post-war period. All these conditions facilitated the smooth implementation of universal health insurance in Japan. At present, however, conditions have changed; health care expenditures are large and still growing, the population is aging, and economic growth is currently stagnant and uncertain going forward. Moreover, people are becoming diversified, income disparities are increasing, and their sense of solidarity may be deteriorating. This paper examines the conditions that enabled the establishment of universal health insurance coverage about five decades ago and discusses the conditions that sustain the system under the current changing conditions in Japan. These analyses will not only facilitate informed decisions for future reforms in Japan, they will also provide insights for those countries that are interested in such a system.

Key words Universal coverage, Health insurance, Economic growth, Access, Solidarity

Introduction

For the last two decades, universal health insurance systems have been established throughout Asia. Korea, Taiwan, and Thailand, for example, established universal coverage in 1989, 1995, and 2001, respectively.[1–3] These successes were the result of both high economic growth and strong political will toward universal coverage. Japan established its universal health insurance system under such conditions in 1961: specifically, conditions resulting from high economic growth in the 1950's and 1960's, and the people's solidarity of the postwar revival age. Some additional factors facilitated the introduction and implementation of universal health care as well. The purpose of this paper is to examine the conditions that enabled the establishment of universal health insurance coverage about five decades ago and to discuss the conditions that sustain the system under the current changing conditions in Japan. These analyses will not only facilitate informed decisions for future reforms in Japan, they will also provide insights for those countries that are interested in such a system.

Brief History

Japan's health insurance system increased the number of its participants by providing several types of insurance in a progressive fashion to each group of people in Japan,[4,5] as shown in Table 1. In 1922, the government first introduced Health Insurance (Kenko Hoken) (hereinafter, HI) for industrial workers. At the beginning, participation

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Table 1 Brief history of Japan's health insurance system

1922	Introduction of Health Insurance (HI)
1927	Nationwide Enforcement of HI
1938	Introduction of National Health Insurance (NHI)
1939–45	World War II
1950s	Encouragement of the Merger of Towns and Villages
1958	Revision of NHI
1961	Establishment of Universal Coverage
1983	Introduction of Health Services Law for the Aged
2000	Introduction of Long-term Care Insurance for the Elderly
2008	Introduction of Health Care Program for the Elderly aged 75 and over

was not mandatory and the number of its participants was modest. Several years later, the government enforced compliance with the law on employers of certain kinds of companies in Japan. In 1938, the National Health Insurance (Kokumin Kenko Hoken) (hereinafter, NHI) was introduced for health insurance coverage of farmers and self-employed people. Again, the number of participants was small in its initial stage since participation was voluntary.

After World War II, establishing universal health insurance coverage was one of the highest priorities in the national government. In fact, the national government financially supported municipalities in managing their own NHI funds. During the same period, the national government also encouraged the merger of small municipalities because some villages and towns were too small to maintain independence in several respects. As a result, between 1950 and 1960, the total number of municipalities in Japan decreased from 10,500 to 3,574. These nationwide mergers strengthened both the financial and manpower capacities of small municipalities. In 1958, the National Health Insurance Law was revised and participation in the NHI became mandatory. Three years later, the health insurance system finally covered nearly all people who lived in Japan.

Although universal health insurance coverage was established in Japan in 1961, several problems remained. First, there were some differences in benefits and premiums between HI and NHI, because the latter was not able to receive any financial contribution from employers. The national and local governments incurred a considerable financial burden to maintain NHI funds for each municipality. Because of this problem, even after universal coverage was established, reforms were needed in the health insurance system, and in fact several were implemented, such as changes in the copayment rate.[5] As a result, the differences in benefits between HI and NHI have been reduced, while the financial burden of the national government has increased.

Second, there had been no effective or efficient system of handling claims and payments between health insurance organizations and medical providers. The numbers of both parties were enormous, and such transactions were indeed troublesome and time-consuming. Establishing the review and payment organizations was a solution, though not a perfect one. This issue has been discussed elsewhere.[6]

Third, in the 1960s, both physicians and medical facilities were insufficient and geographically maldistributed.[7] As a result, some people had difficulties in access to physicians even if they were insured. Such a situation was called "insured, but with no services." Such a problem might be a fundamental drawback to health insurance, because insurance itself does not assure provision of services, especially in rural and depopulated areas.[1,8]

The Health Insurance System

An outline of the health insurance system of Japan is shown in Table 2. There are numerous public/non-profit insurance organizations which are categorized into several different types. Whether one person belongs to a particular type of insurance mainly depends on his/her job or on the job of the primary earner in the family. The amounts of the premiums differ according to the type of insurance. Because the participant rate of

Table 2 Outline of Japan's health insurance systems (as of 2008)

Category of insurance organization	Insured persons, including family members	Insurer	Number of subscribers (million)[a]	Copayment[b,c]
Health Insurance (HI)				
JHIA managed HI	Employees at small- and medium-size companies	Japan Health Insurance Association (JHIA)	36 million	30%
Society-managed HI	Employees at large-size companies	Health insurance societies (company-based) (about 1,500)	30 million	
Mutual Aid Association	Public employees	Mutual aid associations	10 million	
Seamen's Insurance	Seamen	Government	0.2 million	
National Health Insurance (NHI)	Retired persons, self-employed, farmers, etc.	Municipalities (about 1,800)	51 million	30%
Health Care Program for the Elderly aged 75 and over (New system)	All those aged 75 and over	Municipality union (prefecture-based)	Not yet available (estimated as 13 million)	10% except wealthy elderly aged 75 and over

a: The total population in Japan is 127 million. These numbers still include those who are supposed to be designated as covered by the new system (Health Care Program for the Elderly Aged 75 and Over) because such separate statistics are not yet available.
b: For the elderly or small children, copayment rates were set lower, specifically at 10% or 20%.
c: There is a monthly cap on the amount of patient copayments. In other words, the costs of catastrophic illnesses are almost fully covered by the health insurance systems.

the elderly has been higher in NHI than that of the other types of insurance, NHI has faced financial difficulties and received considerable subsidies from the national and local governments. From April 2008, because of these difficulties, the government has introduced a new health care program for the elderly aged 75 and over, in which all those covered are required to make an income-based contribution to the program, while the entire insurance system and the government contribute to the program as well (Table 2).

In principle, the insured can go to see a doctor at any clinic or hospital in Japan. The costs of medical services are borne both by the patient and the insurer. Patients have to pay a certain percentage of their medical costs (a copayment) at the point of service. At the beginning of every month, clinics and hospitals submit the claims for the costs of patient care in the previous month to review and payment organizations. Insurers make payments after a check and review process, which takes a couple of months.

Calculation of the medical costs is based on the medical fee-schedules determined by a special committee in the Ministry of Health, Welfare and Labor. The medical fee-schedules are revised every other year. The fee-schedules have sometimes encouraged certain types of medical services and discouraged other types of medical services. These have been the conventional government policies on health services, and worked for controlling health care expenditures.[9]

Establishment of the Universal Health Care System

Overall, the establishment of a universal health care system in Japan has achieved positive results.[10] First, the system has ensured that people have universal access to health care, through which they can receive health services with relatively low payments. Second, people have enjoyed better overall health in Japan than those in other countries. Currently, the overall health of the Japanese is excellent, as evidenced by various health indicators.[11] In 2005, average life expectancy was 78.6 and 85.5 for males and females, respectively. Infant mortality was 2.6 in 2006. These figures are great achievements for Japanese, though they are not attributed solely to the health system but

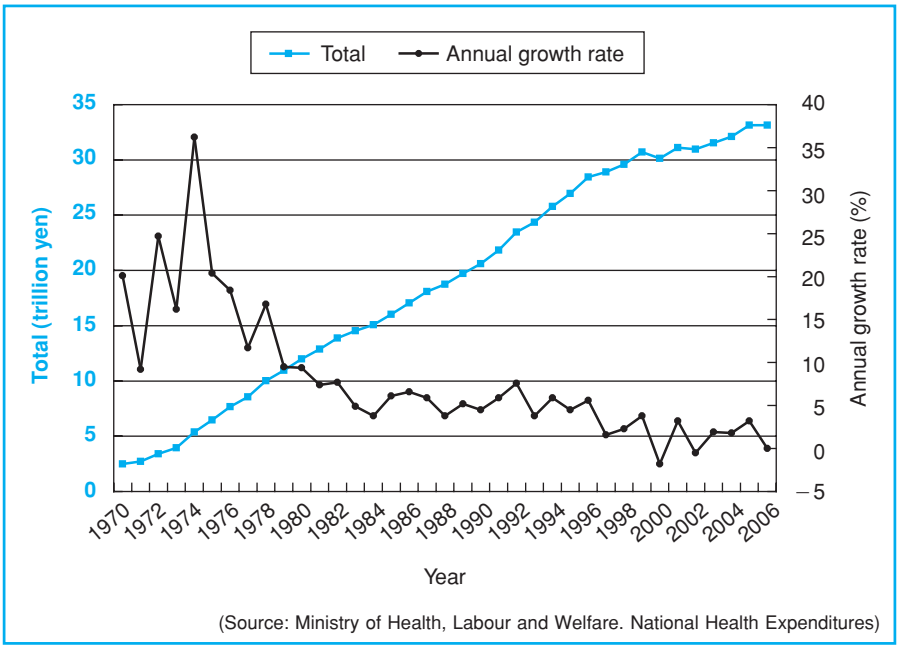

Fig. 1 Trend of health care expenditures in Japan

also to the various conditions in post-war Japan. Third, they have achieved the above progress with relatively low costs (8.0% of GDP in 2005).

Health Care Expenditures

In 2006, the total expenditures of health care services in Japan were estimated at about 33 trillion yen (US$347 billion)*2 [12] The trend of the total expenditures is shown in Fig. 1. The aging population, increases in chronic diseases, advancements in medical technologies, and the growing expectations of patients, have all contributed toward increasing health care expenditures in Japan, as is the case in most developed nations.

While the total figures themselves increased constantly, annual growth rates decreased significantly after the 1980s. During this period, the government introduced several measures for cost control, some of which worked effectively. In 1997 and 1998, growth rates were extremely small, and it was suggested that an increase of the copayment rate in September 1997 caused this phenomenon. Although the price elasticity of health services was considered low, the increase of copayments in that year quite effectively reduced the demand for health services. However, whether this policy was appropriate or not remains an open question. If the government continues to apply such a policy to cost control, access to health services among the poor may be seriously hampered in the future. In 2000, the annual growth rate was negative, specifically—1.8%, because a part of elderly care expenditures was shifted to the long-term care insurance for the elderly.[13]

Experience and Lessons

Japan established universal health insurance coverage in 1961, because of several advantageous conditions in Japan at that time; some involved political decisions and others were a matter of timing. There had been a strong political will in Japan for universal health insurance in those days. The government, together with the bipartisan political movement toward universal coverage, moved forward to establishment of the desired system.[4,5] After long talks, the Diet passed a bill through which participation in the

*2 Yen/dollar exchange rate: 1 US dollar≒95 yen.

NHI became compulsory and the national government increased subsidies for municipal NHI funds to 30%. The Japan Medical Association initially opposed the plan regarding its bureaucratic nature, but eventually reached an agreement with the government. In addition, the nationwide municipal mergers in the 1950s facilitated the process of universal coverage.

The long introductory stage of health insurance itself may have contributed to the successful outcomes as well. It took 39 and 23 years to establish universal health insurance coverage since HI and NHI were introduced, respectively. This long period of cultivation may have provided the opportunity to educate and familiarize people with the use and benefits of health insurance. Whether an incremental approach or a drastic one is better to implement universal health insurance, and under what conditions, are surely priority research questions concerning health policy in newly industrializing countries.

Another key to success was timing: Japan implemented its universal health insurance system at just the right time. There were at least three such conditions when Japan established this system. First, the costs of health care were low. In 1960, the proportion of health care expenditures to GDP was only 3% in Japan and the rate of elderly people aged 65 or over to the general population was less than 6%. Second, the people wanted sufficient quantity and higher quality of services. They had earned and could afford such services because they were concurrently achieving high economic growth. Third, there was a sense of solidarity among the people. The Japanese people shared the same cultural backgrounds to some degree, and in the 1950s and 1960s, they may have bonded further psychologically as they lived together during the difficult post-war period. All these conditions facilitated the smooth implementation of universal health insurance in Japan, and these stories will also provide insights for other countries.

Future Challenges

The advantages may become disadvantages if conditions change. When Japan established universal health insurance coverage, health care expenditures were low, the population was younger, economic growth was much higher, and people were more united. At present, however, health care expenditures are large and still growing (8.0% of GDP in 2005), the population is aging (the proportion of the elderly was 20% in 2005), economic growth is currently stagnant and uncertain going forward (the GDP real growth rate was 1.7% in 2007).[14] People are becoming diversified, income disparities are increasing, and their feelings of solidarity may be deteriorating. Under the above circumstances, about 10% of households are in arrears on their NHI premiums.

As a matter of course, a certain percentage of GDP, once established as a norm, would soon become "under-funding."[15] In practice, however, if health care costs continue to increase at a pace much higher than the economic growth, the health insurance system will not be sustainable in the end. So far, government policies for cost control have worked, but further increases in health insurance copayment rates are questionable. An additional cut in the medical fee-schedules across the board may undermine the morale of health care providers.

Instead, the system of health care provision should be reorganized to assure high quality services in a cost-effective manner. Good management of hospitals, in a broader sense, is very important. Recently, the new payment system for acute-care hospitals, called DPC (Diagnosis Procedure Combination), in which a per diem flat payment is applied for most inpatients, is expected to encourage efficient management of resource procurement and allocation.[16]

Reforms on health insurance bodies are also needed. Restructuring the health insurance system, including review and payment organizations, would give them opportunities for establishing a more efficient and coherent system. In general, the majority of insurance organizations are too small to maintain and operate in terms of efficient management, and consolidation of such organizations is necessary.[17,18] The size of each insurance organization, a sense of unity among participants, and the degree of its autonomy matters. Indeed, vigorous discussions are necessary for reforms of Japan's health insurance system.

Concluding Remarks

Almost five decades have passed since Japan established universal health insurance coverage. The system has worked so far, however it is definitely in need of reforms because of various

changes in the society. The system faces crucial challenges including: measures against moral hazard, quality of care improvement, provider management skills, and the consolidation of health insurance. Whether we can sustain the system depends on how well we deal with these challenges.

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