



How to Achieve a Golden Age in Japan's Era of Longevity

◆ Ten Policy Proposals ◆

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Three fundamental concepts

1. Maintain “protection from financial risk” (or prevention of critical impacts from serious illness on household finances) as a function of the public insurance system, in keeping with the philosophy that “large risks should be covered with assistance, and small risks by the individual”.
2. Divide the “insurance” (risk dispersion) and “tax” (redistribution) functions of the social security system, and concentrate use of public funds on those who are genuinely in need.
3. Share a vision of what Japan should achieve in an era of longevity, and promote innovation in health using ICT, AI, big data and other technologies, stimulating national awareness and system-wide innovation.

Proposal 1 Consider shape of social security and tax reform after the 10% consumption tax increase

Japan is still facing long-term fiscal problems. It is starting to be pointed out that there are side effects from the BOJ's policy for monetary easing, and it seems unlikely that Japan will be able to keep holding down its interest rates in the long-term. As added pressure, the baby boomer generation will have turned 75 by 2025, and the associated increase in medical and nursing care costs mean that public finance will not stabilize even after the consumption tax is raised to 10%. There is a need to clarify the extent of tax increases, and the social security reform, that is necessary to stabilize finances for social security. As part of this there needs to be deeper debate on an 'integrated social security and tax reform ver2.0'.

<Current Issues>

- The combination of changes necessary to stabilize financial resources, e.g. the extent of the tax increase or the scale of social security reform, is currently unclear. There is significant uncertainty about Japan's fiscal future, including over potential negative impacts on household and business savings, and on consumption and investment.
- Debate on tax reform has been based on over-optimistic expectations of high growth. This is a gamble that pushes the burden onto future generations (refer to Harvard University Prof. Greg Mankiw's "The Deficit Gamble").
- Even with the increased consumption tax and efforts towards social security reform, it will have no impact if the government persists with introducing low tax rates and other measures to ease the potential blowback through tax policies—'like sprinkling water on a desert'.

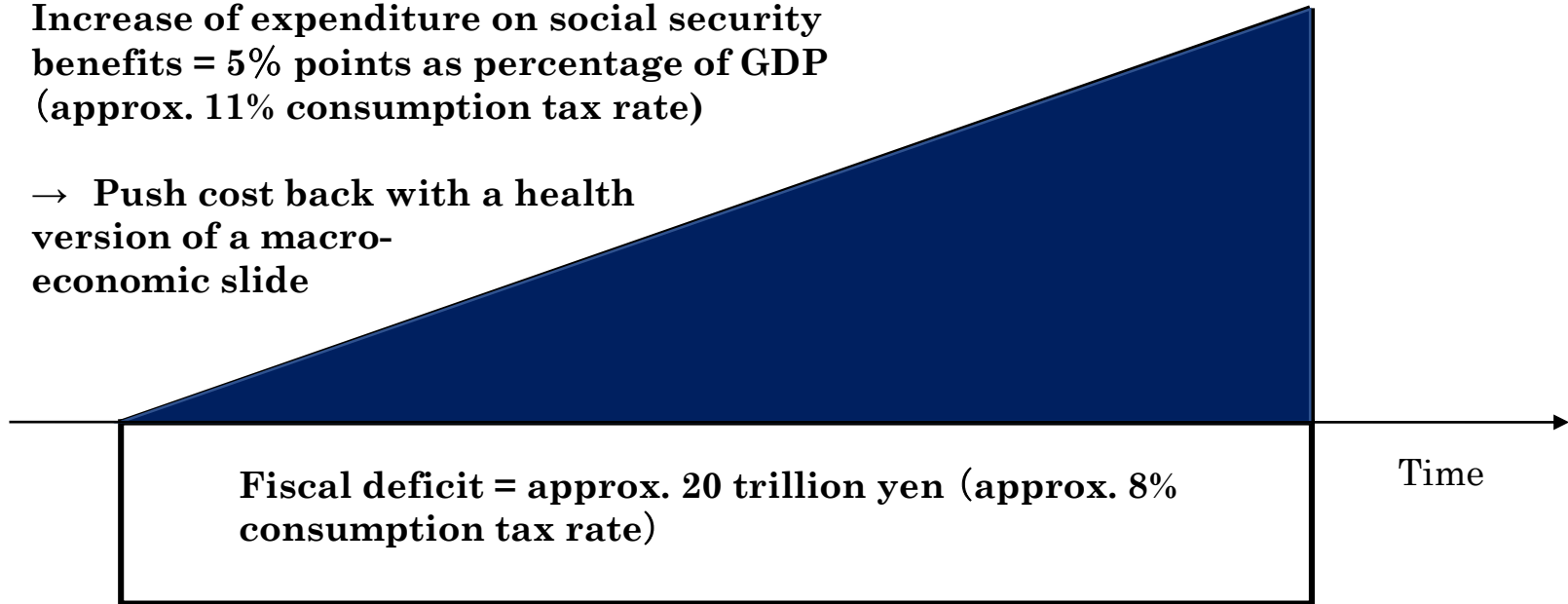
<Recommended Directions>

- As a top priority, use more cautious growth rate predictions to conduct a long-term forecast for public finance, and an estimate of generation accounts, to present a set of reforms that will achieve fiscal stabilization after 2030 (e.g. 20% consumption tax, an automatic adjustment of the starting year for pension payment, or a health version of the macro-economic slide).
- Abolish low tax rates. Also use the MyNumber system to introduce tax deductions with benefits that assist low income earners.
- If low taxes are to be continued, then start debate on sources of social security funding other than the consumption tax, as soon as possible (e.g. income tax and property tax including tax on wealth).

Proposal 1 Reference

Increase of expenditure on social security benefits = 5% points as percentage of GDP (approx. 11% consumption tax rate)

→ Push cost back with a health version of a macro-economic slide



If the Japanese government is actually able to introduce a health version of a macro-economic slide, it would be possible to keep the consumption tax at approximately 18%.

※ In cases where low tax rates are removed

Proposal 2 Rehabilitate Japan's pension finances

Japan's pension funding has serious problems relating to long-term sustainability. Assessment in the last two fiscal reviews was based on economic assumptions that are distant from reality; and the reviews work to hide the severity the situation. The biggest issue is that the government's macro-economic slide (which, based on the Swedish model, was meant to link pension contributions and liabilities in a manner that balanced the entire system) has not functioned as intended. The nominal lower limit threshold will have to be removed if it is to become fully functional. Options such as pushing back the starting age for pension payments and reducing the amount in each lifetime entitlement payout should be considered as means to rehabilitate overall pension finances.

<Current Issues>

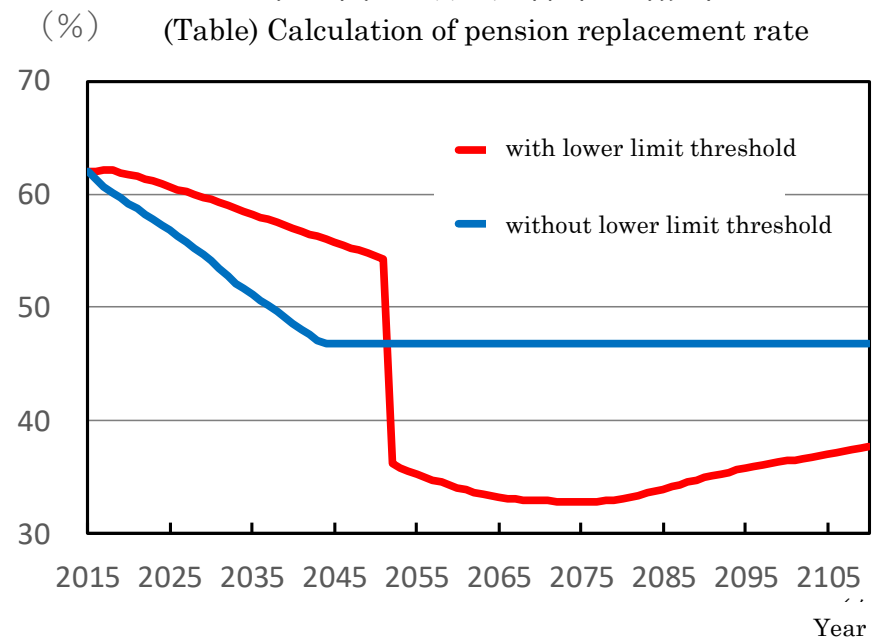
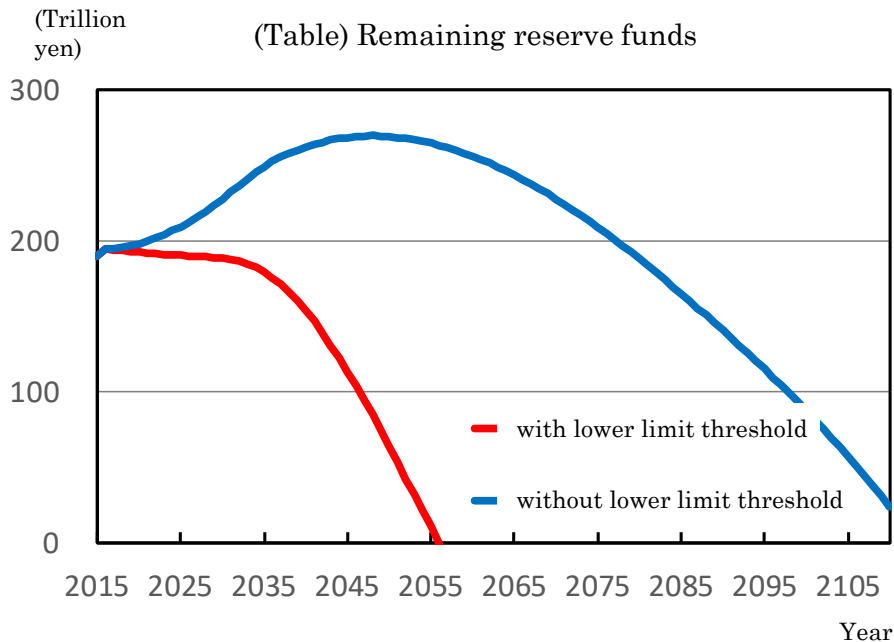
- There have been repeated efforts to conceal severity of problems facing the Japanese pension system.
- Once every five years, the Ministry of Health, Labour and Welfare conducts a fiscal review based on set assumptions about demographic and economic change, providing an outlook on pension finances for the next 100 years. This is the 'regular check-up' for pension funding. In both the reviews in 2009 and 2014, the pension system was declared to be in good health.
- The assertion of good health was based on 1.2% inflation, 2.5% wage growth and other assumptions distant from the present reality and forecasts for Japan's economy. Calculations also assumed that the 'macro-economic slide' introduced in 2004 would function as anticipated. The outcome is only a false image of fiscal sustainability.

<Recommended Directions>

- The government needs to remove the requirement for maintaining the nominal lower limit (the nominal lower limit threshold) if it is to make the macro-economic slide for pensions function as intended. Also, if it is determined that removing the threshold will be insufficient to return pension finances to a state of health, it will be necessary to push back the starting age for pension benefits, and (for example) reducing the amount in entitlement payouts, to prevent the eventual depletion of pension funds.

Proposal 2 Reference

- Under more realistic economic assumptions, reserve funds will be depleted in 2051 and the pension replacement rate will plummet from 54.2% in to 36.1% in 2052.
- If the nominal lower limit threshold is abolished, the pension replacement rate will decrease to 46.8% in 2044, but could be sustained at that level thereafter.



Economic assumptions for calculation: both rate of inflation and rate of wage growth calculated at 0.44%, taking from the average of the period 2013-2017. This period overlaps with the second Abe administration, which started in December 2012, and a period of economic expansion. The rate of inflation excludes the impact of the increasing the consumption tax in 2014. Given as there is significant fluctuation in annual investment returns, calculations refer to the Government Pension Investment Fund (GPIF) financial year investment return (2001-2016) of 2.89%.

Proposal 3 Guarantee minimum benefits and neutrality for pension and work lifestyle structures

The Japanese pension system (1) is not matched to current work styles and household structures, and (2) its '1,300,000 yen roof' and 'working pensioner' systems penalize women and the elderly in a way that reduces their desire to work. Furthermore, (3) for the basic pension it is anticipated that the macro-economic slide in its current form will eventually cause minimum social benefits to plummet. There are limits to the current system's ability to provide a comprehensive solution to these problems. There is a need for the government to face up to these issues and move towards creating public consensus on the creation of a new pension framework as soon as possible.

<Current Issues>

- Japan's current pension system is still built on the model of a working husband and stay-at-home wife and does not match with modern work styles and household structures. It will get even further out of touch with changes expected in the coming decades.
- The '1,300,000 yen roof' on spouse incomes and the reduction in benefits for working pensioners in particular lessen the will of women and older citizens to pursue employment.
- Even government calculations estimate that pension funds will not be able to support basic pension payments unless they are brought down by approximately 40% from current levels, which means that the minimum support and benefits expected by Japanese in their retirement will be drastically reduced.

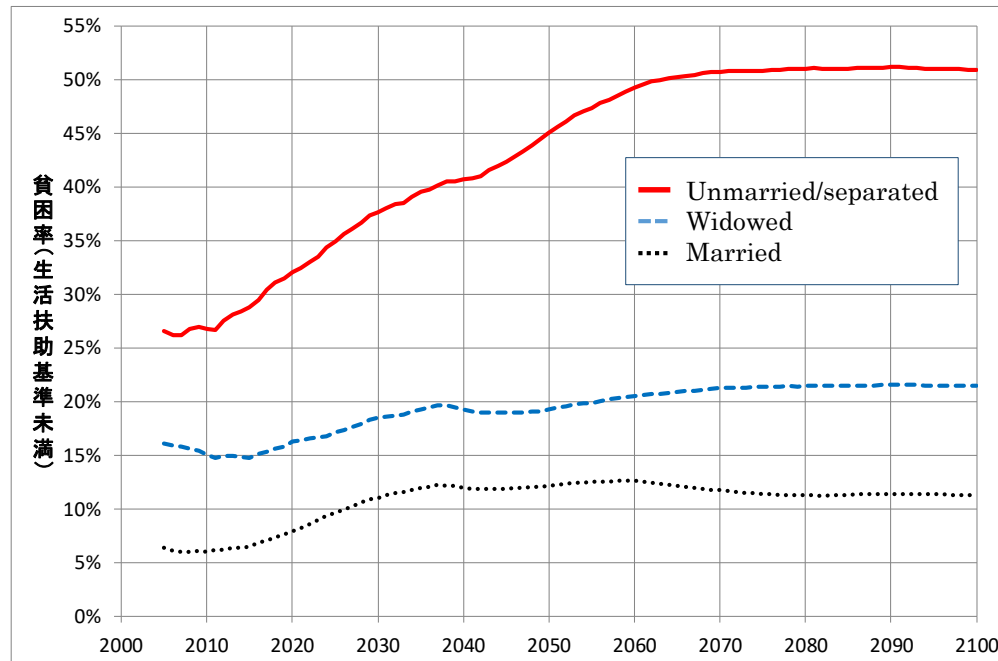
<Recommended Directions>

- Even if the current pension system (in which the welfare pension and national pension frameworks are separate and basic pension is paid to individuals registered for either pension) could address the existing problems, they would only be addressed in a very limited fashion. The government needs to face up to the issues with the existing system and take the earliest possible action on creating public consensus on creation of a next generation, centralized pension framework that guarantees minimum benefits and support, especially for vulnerable groups.

Proposal 3 Reference

- The future outlook on the poverty rate for elderly women based on their spouse relationships indicates that, while poverty rates for widows or living husbands will mostly continue at present levels, poverty for unmarried or separated women will increase rapidly by over 50% on current rates.
- A major contributor is the pension system, which supports the gap in male and female employment. “The current pension framework is a system built on the model of the standard household from Japan’s high economic growth period. On one hand, stay-at-home wives receive exceedingly favorable treatment, while on the other hand there are no tax breaks or support mechanisms for unmarried women or those who are separated from their husbands.”

Prediction of future poverty rates for elderly women



(Ref) Seiichi Inagaki (2016) “Simulation analysis relating to poverty among elderly women” *Nenkin to Keizai* 35(3)

Proposal 4 Achieve an appropriate division of burden for health insurance

While firmly supporting the principle of UHC (Universal Health Coverage), it is important for the sustainability of health care financing that Japan reviews its rationale for the extent of insurance benefits, and considers a framework for determining out-of-pocket expenses based on the particular illness or medicine, not age. Medical insurance for persons over seventy-five should consider the shrinking working population and its capacity to support the growing insurance costs. Japan should consider introduction of a macro economic slide 'health version' for over seventy-fives, in order to increase the sustainability of health care financing and level out the burden between generations.

< Current Issues >

The government needs to take assertive action on what will be a politically painful revision of the welfare system. The balance of insurance payouts and financial burden should be adjusted, not to accrue favor in elections, but in a manner that is effective and free from party politics.

The social welfare benefits covered by tax and insurance (e.g. health costs, care, pension) currently cost around 120 trillion yen. According to calculations by the Cabinet and other ministries, these costs will increase by 1.5 times to approximately 190 trillion yen in 2040 (e.g. social welfare share of GDP was 21.5% in 2018, but is expected to reach 24% in 2040).

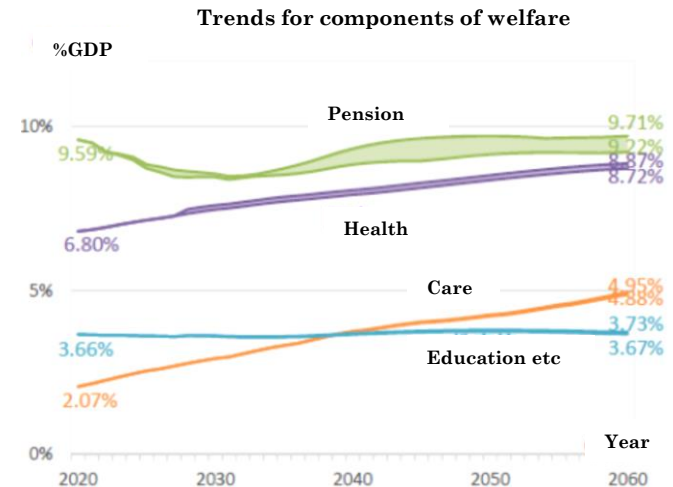
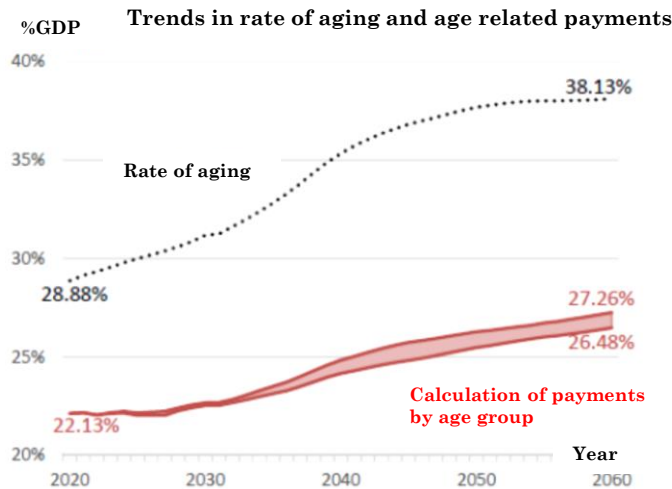
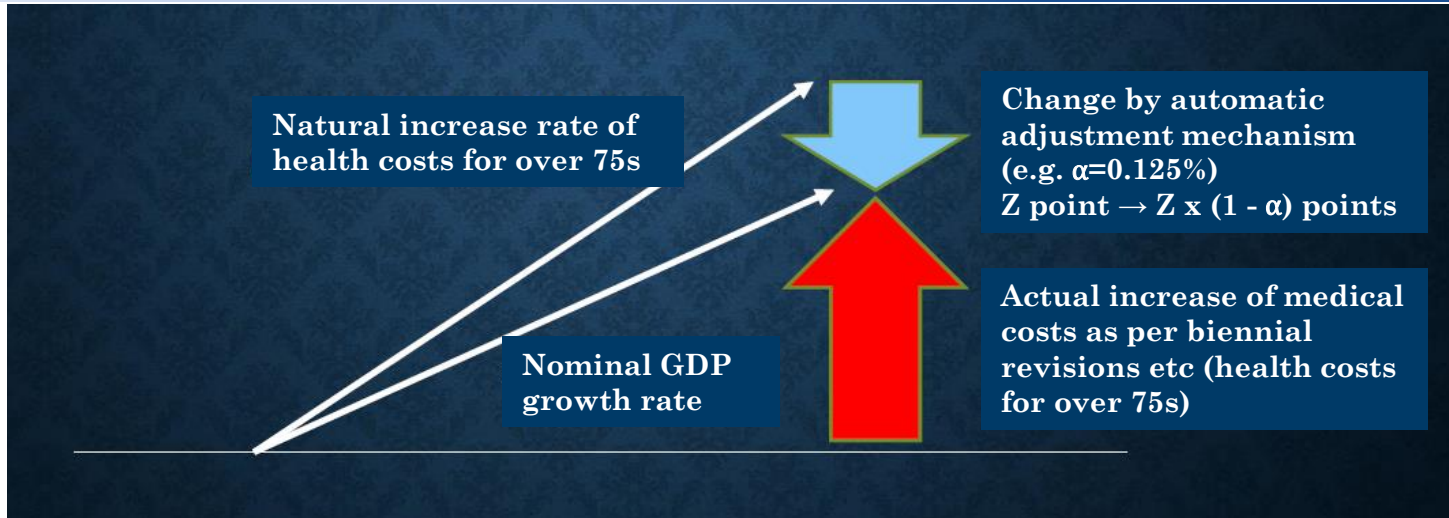
Japan's long fiscal predictions, revised by MOF in April 2018, raised the percentage cost of health and health care as part of total GDP from 9% in 2020 to 14% in 2060. This 5 percentage point increase would equate to roughly 28 trillion yen (consumption tax adjusted, 11%) in terms of current GDP—a significant challenge for financial resources.

A basic principle of social welfare is that large risks are borne with assistance and small risks are borne by individuals. The existing system determines subsidies by age-group and does not adequately reflect patients' individual circumstances such as the necessity of treatment and their financial resources.

< Recommended Directions >

- Japan should revise the rationale for insurance benefits and consider adjusting financial burden by illness, e.g. increase out-of-pocket expenses for relatively light afflictions and reduce the burden for illnesses that threaten life or quality of life. The government should also accelerate measures that alleviate health costs, e.g. illness prevention/programs to promote healthy long life.
- Elderly (75+) health care should consider the burden on Japan's shrinking working population, refer to the macro economic slide used for pensions, and set an automatic adjustment mechanism for the remuneration of medical fees, to ensure both long term sustainability and equal division of burden across generations.
- Insurance related to pharmaceutical products should maintain the system for providing high-cost medicines, revise the age-based approach to out-of-pocket expenses and consider how to adjust the out-of-pocket cost of drugs by effectiveness or by illness severity.
- The government should consider using the MyNumber system to identify high- and low-income households and adjust out-of-pocket expenses accordingly.

Proposal 4 Reference



Source: Ministry of Finance (2018) "Long-term Economic Outlook for Japan (revised)" [tentative translation of title]

Proposal 5 Shift to more sustainable and effective medical care

In recent years, 80% of the financial resources for keeping down the cost of health care have come from price revisions for medicines and medical supplies. To achieve a sustainable welfare system, Japan will have to move away from an approach that balances books by making cuts in these specific areas and instead undertake revision of the medical fees reimbursement system and other areas that can help hold back the growth of social security costs. Increasing efficiency through waste reduction and reallocation of services is also needed to achieve a shift to better and more effective treatment.

<Current Issues>

- Costs for the NHI are forecast to increase with the progressive aging of Japanese society.
- While the drugs budget represents only 22% of total NHI expenditure, over 80% of the NHI cost saving targets focus on drug price reduction.
- Japan's pharmaceuticals market is the only major market forecasting minus growth. At the same time, there are limits to long-term social welfare funding that can be elicited from cuts to one specific part of the NHI system.
- Some of the above short-term savings have in fact been reinvested into areas that drive cost expansion, giving rise to the possibility of continued cost inflation.
- There are concerns that cost reductions will continue to focus on 'quick wins' that avoid political pressure and overlook areas that require more assertive cost controls.

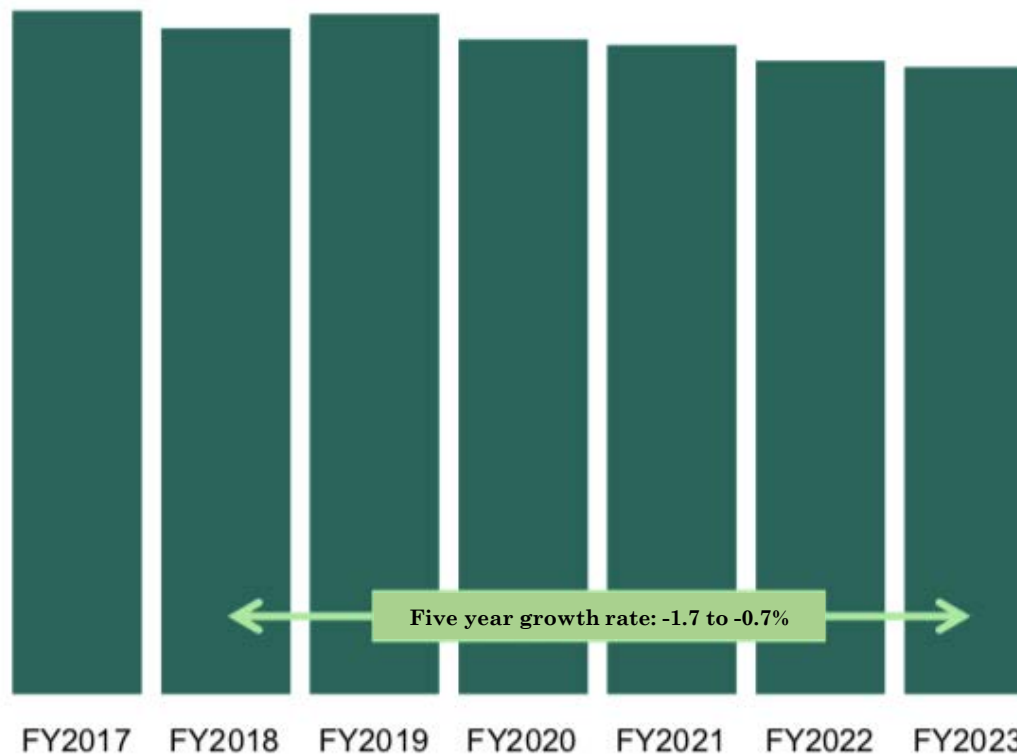
<Recommended Directions>

- The government needs to take a broader, long-term view of the NHI and shift to a better, more effective system for medical treatment.
- In the long term, Japan should follow international best practice and shift from the current fee-for-service medical reimbursement system to one that focuses on fee-for-outcome. This would help to reduce waste of medical resources and establish incentives for delivering better, more effective treatment.
- In the short term, there should be efforts to implement data-driven waste evaluation and reduce the length of hospital stays, waste of medical consumables, and inefficient use of hospital facilities. Data can also be used to promote a shift to regular family doctors and medicines that can be bought at cost by patients over-the-counter.

Proposal 5 Reference

Expenditure and growth rates for domestic medicines

Fiscal year (April to March)



According to data from IQVIA, the present 10.78 trillion yen in medical product expenditure is expected to rise to 9.79 - 9.99 trillion yen in 2023. Through the price revisions from 2018 to 2023 the market for medical products (medicines) contracted by an accumulated total of over 3.5 trillion yen. Because of this contraction, and even with investment in new medicines, the growth of the domestic market will be somewhere between minus 0.7% and 1.7%. The government should identify the actual figures and outlook for the cost of medicines as part of overall health expenditure and debate division of resources for medical cost reimbursements and drug prices.

Source: IQVIA Solutions Japan Domestic Health Medicines Expenditure: Forecast to 2023

Proposal 6 Promote medical innovation, access and sustainability

In order to realize a 'real' society for health and longevity, it is vital to invest in health innovation for revolutionary new medicines and medical products. The government should promote reform in the field of off-patent pharmaceuticals and at the same time establish an environment for sustainable investment in new medicines, and work to enhance patient access and industry development. These measures to support health innovation will reduce the cost of health care in the medium- and long-term.

<Current Issues>

- There is space for reforming the field of off-patent pharmaceuticals e.g. lowering the cost of generics, which are more expensive in Japan.
- The recent revisions to the price maintenance premium (PMP) framework caused a step backwards in the way that health innovation is evaluated, affecting not just the value of drugs but also defining that value on the basis of the manufacturer's size or the product's position on the market.
- There is yet to be appropriate discussion the different fiscal impacts of different medicines, for example of so-called 'high price' drugs that are in fact used by only a few patients, and also cheaper medicines that have more users and pose a greater burden to the health care system.
- Outside of Japan, there is an increasingly competitive environment for R&D investment in health innovation.

<Recommended Directions>

- The government needs to do more to improve patient access and industry development, in particular by offering more incentives for companies and researchers to develop innovative medicines, to bring Japanese innovation up to the same level as in China, Singapore and other countries.
- Rather than debating drug prices on the basis of single dosage cost, Japan should consider medicines based on evidence that combines cost, volume of use and overall fiscal impacts including cost offsets and the therapeutic and societal value that the medicines bring to treatment.
- The government should lower the price of generic drugs and promote reform in the field of off-patent medicines. It should also reinvest part of the money saved into research and development, as a means of creating a sustainable environment for medical innovation.

Proposal 7 Promote prevention and proactive care

In order to make the most effective use of limited health care funds and resources, the government should continue its emphasis on prevention and proactive treatment, and should use the existing system of health assessments to expand programs and strategies for managing chronic illness and lifestyle-related disease. As part of this framework for preventative, proactive treatment, Japan should introduce mechanisms such as a points system that reduces costs for those who actively engage in preventative health, and ensure means of appropriate evaluation and payments within the health care system.

<Current Issues>

- Clinical treatment is still at the center of medical practice. While the field of public health has shown greater interest in preventative medicine, regular doctors and clinicians do not yet appear to be sufficiently engaged in preventative or proactive measures.
- Foreign companies have become more successful at providing services that use wearable devices and sensors to help prevent disease and improve individual health.
- When it comes to preventing health crises and the spread of illness, the process through vaccines are approved as routine vaccinations is notably opaque and the lack of predictability is having negative impacts on vaccine development.

<Recommended Directions>

- The government needs to adopt an over-arching strategy that uses a variety of preventative measures to achieve its goal of greater health in longevity (e.g. promoting wider use of vaccines, sensors and wearable devices, and encouraging a shift to healthy actions including exercise, etc).
- The government should fundamentally revise reimbursement structures to establish incentives for prevention, and it should assign greater value to innovation for preventative medicine. Even with the initial costs, is important to have policies that stimulate innovation as a means for achieving long-term savings.
- There should be legal provisions for developing vaccines and using and evaluating 'pre-approval' vaccinations for illnesses that constitute a threat to international health.

Proposal 8 Promote ICT and data health

The government has raised the idea of a 'Fourth Industrial Revolution' as part of its focus on developing new industries that utilize ICT including big data, artificial intelligence and IoT. A similar 'Medical System Revolution' using big data and other tools from ICT is also important. INES will work to be the focal point and connector between stakeholders and establish a place to debate and plan a system for the Japanese people (patients), especially in relation to the nature and extent of data use (including an information bank) and patients' ownership/access to medical information.

<Current Issues>

- Further progress on a medical ICT revolution, including the government's current plans for an NDB (National Database of Health, Insurance Claims and Specific Health Checkups) and a framework for big data driven healthcare, would lead to more detailed, accurate analysis of treatment outcomes and medical reimbursement methods. This would help to improve medical insurance finance and make it possible to implement efficient, effective, evidence-based decisions on reimbursement of medical costs.
- As a long-term issue, Japan needs to devote more effort to establishing an evidence-based approach for finding an appropriate solution for managing drug price margins. ICT tools have not been adequately considered as a tool to address this problem.

<Recommended Directions>

- There needs to be a new system where the Japanese people can benefit from revolutionary medical products and next generation devices developed with AI, big data, and real-world data.
- IT platforms support 1) diagnosis and treatment planning/provision, 2) patient follow-ups, and 3) patient data management as a tool for comprehensive care, and by creation of a network of specialized medical centers, can promote distance medicine and better treatment efficiency.
- Japan should as a government initiative establish a ICT data infrastructure specifically for healthcare development, and introduce an ID system to streamline the safety monitoring process for new medicines and medical products. Japan should also use ICT to link treatments, testing, care, genome information and other data in a largescale health data base, for example by creating a patient centered PHR system. At the same time Japan needs to pursue the highest level of global safety, and where necessary reform regulations to close the gap between the 'home-grown' Japanese system and international standards.

Proposal 9 Enhance Japan's working environment

To achieve a real society that supports health and longevity, it is important to ensure that those affected by illness can balance work with appropriate treatment. Japan also needs the appropriate social structures that enable individuals to undertake childrearing, IVF treatment or other family care obligations and hold normal employment. The government and the private sector should work together on the initiative, including on establishing adequate work environments and promoting health innovations.

<Current Issues>

- Japanese workplaces have insufficient understanding when it comes to balancing work and battles with illness.
- It is difficult for those affected by serious or intractable diseases to enter the workforce. There are especially few provisions for those affected illnesses that are not recognized as intractable, but still make it difficult to work (e.g. fibromyalgia).
- In Japan it is still hard to work while providing care for another family member, for example children, parents or other relatives.
- Japan still lacks office environments where people can work while child-rearing or receiving IVF treatment.

<Recommended Directions>

- For those with cancer, mental health conditions, and illnesses that require long-term treatment, there needs to be understanding from workplace physicians/companies, and provision of a more supportive work environment.
- Companies should maximize work support and use options such as telework (working from home) for those with intractable illnesses or responsibility for care.
- There needs to be greater efforts in establishing working environments where there is understanding and tolerance for childrearing and medical conditions such as migraines or menstrual cramps, which are greater issues for women employees.
- Japan needs to have work environments where it is easier to receive, and have company support for, IVF treatment.

Proposal 10 Contribute to national debate on social security issues

A 'Social Security Advisory Council' made up of relevant ministers and experts with all key stakeholders (including health system users, hospitals, patient groups, industry) should be established for discussing medium-to-long-term social security and drafting a comprehensive 'honebuto', with a vision and philosophy, for reform. Attached to that council, there should be expert working groups established to conduct analysis using big data on pensions, health services, caregiving and other areas. Members of this experts' group would have a term of 4-5 years, and be provided with support staff, and have authority to obtain data from relevant government organs and conduct hearings as required.

<Current Issues>

- Little of the debate on social security reforms is based on long-term forecasts or data analysis.
- Most of the debate on reform is 'patchwork' and will only lead to partial optimization—debate on reforms that will lead to full optimization is absent.
- The logic behind what services or benefits should be renegotiated, and what should be protected, is not clear in current debates.
- Given the complexity of the social security system, making changes without considering their impact to the system as a whole risks failure to achieve sustainable social security, and may unintentionally do harm to patients or the system in the process.

<Recommended Directions>

- First establish a vision and philosophy to be used by the council for discussion of a 'honebuto' for mid-to-long-term social security reform (e.g. clarify the distinction between insurance, which functions as risk diffusion, and tax, for redistribution, and use tax for those in genuine need; reconsider in-kind benefits (housing/food); and discuss how to utilize vacant housing).
- Use this expert forum for evidence-based debate (e.g. forecast future pension distributions and use these to design assistance benefits, a macro-economic slide or other measures to support individuals in genuine need).
- Increase the predictability and transparency of system reforms (e.g. consider impacts on industry competition and investment, or introducing a health version of the macro-economic slide for pensions).

Proposal 10 Reference

Law No. 266 (23 December 1948)

◎Law Establishing the Social Security Systems Council

Article 1 The Social Security Systems Council (below, 'the Council') is under the jurisdiction of the Prime Minister and shall engage in research, deliberations and recommendations relating to systems for social security.

Article 2 (1) The Council will conduct research on the most effective economic guarantees for social security, or on legislation of operational frameworks related to social security, and **report those results to the Prime Minister**, in order that the Prime Minister can submit that report to the Diet. The Council has the task and authority to advise the Prime Minister and other relevant ministers in writing.

(2) The Prime Minister and relevant ministers must request the opinion of the Council in advance of making plans, legislation and operational frameworks in relation to social security.

Article 3 The Council will be composed of forty members. In cases where the Prime Minister recognizes the need for investigation of specific items, the Council can have up to twelve temporary members.

Article 4 (1) The Council will have a chairperson, deputy chairperson and standing committee member (one each) determined by mutual assent of committee members.

(2) The chairperson will preside over Council affairs. If the chairperson is through accident unable to attend to their duties, the deputy chairperson will perform those duties while the position is vacant.

Article 5 (1) **The Prime Minister appoints or assigns equal numbers of members from the groups identified below.**

[1] A member of the National Diet

[2] An official of a relevant agency

[3] An individual with relevant knowledge and experience

[4] Users, employees, doctors, dentists, pharmacists and other professional engaged in work related to social insurance.

(2) The Prime Minister appoints or assigns the task of appointing temporary members from individuals identified as [2] to [4] of the preceding article.

Article 6 (1) The term of office for Council members shall be for two years, with half of the Council members to be appointed or delegated each year.

(2) The term of office for a substitute member shall be for the remaining term of office of their predecessor.

(3) The term of office for a temporary member shall be for the period necessary to accomplish the tasks assigned.

Article 7 **The relevant government agencies must provide documents and information at the Council's request.**

Article 8 Council meetings will be held on a needs basis. However, excepting situations where there is an appropriate reason, **meetings are intended to be held at least once every three months.**

Article 9 The Council must submit a report of activities, studies and results to the Prime Minister in the sixty days following the end of each financial year, in order that the Prime Minister can submit that report to the Diet.

Article 10 (1) The Council will have up to 30 directors.

(2) The Prime Minister appoints or assigns directors from among officials from administrative agencies connected to social security and from others with the relevant knowledge and experience.

(3) Directors are provide technical advice and other necessary assistance to Council members.

Article 11 (1) The Council will have up to 20 appointed clerks.

(2) The Prime Minister appoints the clerks from among officials of the relevant government agencies.

(3) Clerks will take instruction from their supervisors and attend to general affairs in support of the Council's work.

Supplementary Provisions

1 This law comes into effect from the date of promulgation.

2 The Government Research Council for Social Security (1946 Ordinance No. 167) is abolished.

3 For the members serving in the newly established Council, the Prime Minister will at the time of appointment or assignment stipulate which half of the members serve one or two year terms from the date of this law's promulgation.



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