

Health Care Costs Control in Japan

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Based on Ikegami and Anderson (2012)

“In Japan, All-Payer Rate Setting Under Tight Government Control Has Proved To Be An Effective Approach To Containing Costs”

The Fee List

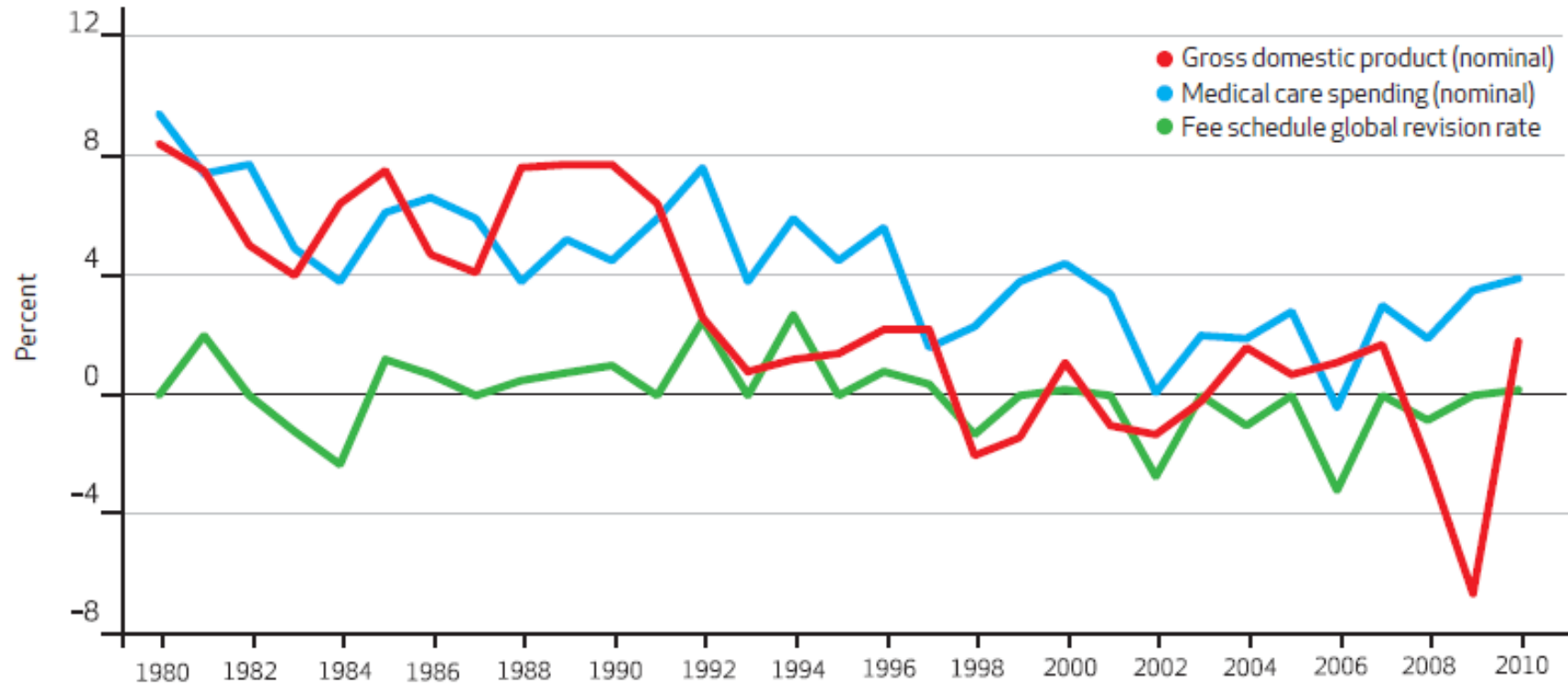
- In Japan, all the services, drugs, and devices are priced by negotiation between the government and the providers, and listed in the nationwide fee schedule.
- The fee schedule is the key mechanism for controlling the flow of funds from all insurers to virtually all providers.
- Balance billing (charging more than the price set by the fee schedule) is illegal.

Revising the Fee Schedule

1. The Prime Minister decides the global (overall) rate of increase or decrease in price for benefits.
2. All medicines and devices are priced by items through negotiations.
 - It is often the case that they are priced lower than in the previous revision through competition among drug distributors.
3. Service prices are revised by items.
 - Volume increase and cost decrease may trigger price reduction (ex: magnetic resonance imaging of the head).

Nonprice Factors

- Although the fee list revision seems to effectively control the health care spending, there are other nonprice factors to raise it.
- Roughly half of that increase is caused by a shift from old to new technologies.
 - Magnetic Resonance (MR) imaging is more expensive than Computed Tomography (CT).
 - A more expensive new drug replaces an old one.
- The remaining increase is caused by demographic factors.

EXHIBIT 1**Changes In Japan's Gross Domestic Product (GDP), Medical Care Spending, And Medical Fee Schedule Global Revision Rate, 1980-2010**

SOURCE Exhibit 1 in Ikegami N, Campbell JC, 2004 (Note 6 in text), updated with information on medical expenditures from the Ministry of Health, Labor, and Welfare and on GDP from the Cabinet Office. **NOTES** Data for 2009 and 2010 are interim. GDP and medical expenditures are nominal (see explanation in text).

<http://content.healthaffairs.org/content/31/5/1049.full.pdf+html>

Competition in Pharmaceutical Industry

- Developing a new drug is associated with a high research cost.
- Once a new drug is created, the cost to making an additional copy of the drug is negligibly small.
- This is the reason why R&D products need to be protected by patent rights.
 - Patent right is an exceptional way to justify for monopoly to prevail.
- However, the lifetime of each new drug is short, because a new, more effective drug is coming soon.

The Politics of Global Rate Revision

- In 2006, PM Koizumi announced to reduce the global rate by 3.16%.
- Providers protested that it would lead to a “collapse” of the health care system.
- The media supported providers by reporting incidents such as the death of an expectant mother who was not able to find a hospital in time to deliver her baby.
- However, the empirical evidence for a link between that tragic death and the cost containment policy is weak.
- DP defeated LDP in 2009 election and the government raised the global rate by 0.19%.

Comparison between US and Japan

- The major difference comes from their different perspective on payment policy.
- In US, the basic assumption is that providers should be compensated for their actual costs.
 - Even other costs including higher wages and better facilities are reflected by higher treatment costs.
- In Japan, prices are uniformly set across countries by the fee schedule.
 - Hospitals need to carefully consider location and employment in order to make surplus.