Population ageing and health and long-term care in Japan

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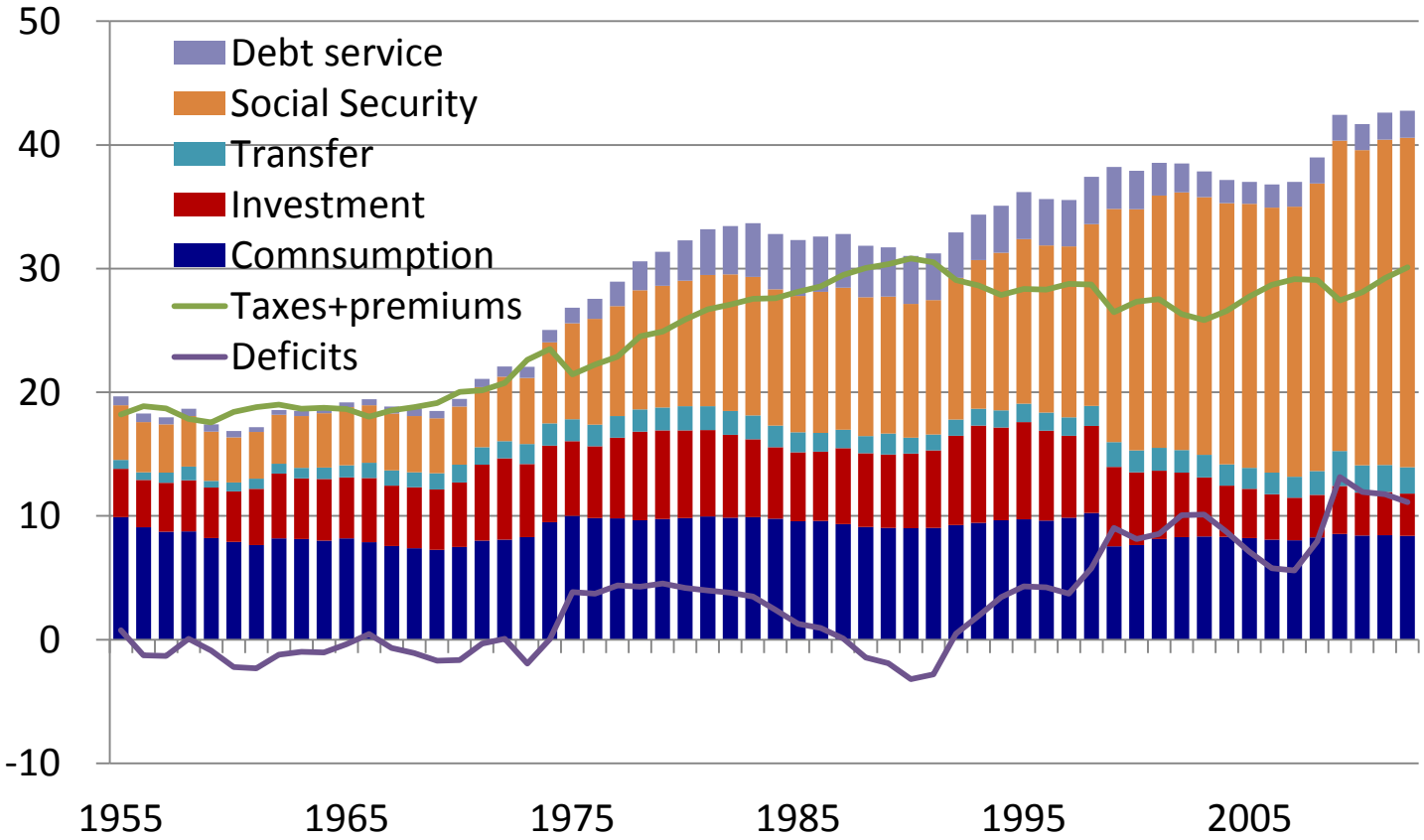
My two issues

- Fiscal sustainability in an ageing economy
  - Yes, truly important.
  - Lots of options to achieve (recover) sustainability
    - VAT is not an only way

1. Health insurance is more difficult than pension
   - After all, pension is a matter of cash.
   - Health is related with life
2. Concerns of inequality/distribution
   - Larger disparities in the elderly
   - Not so progressive taxation/social insurance premiums

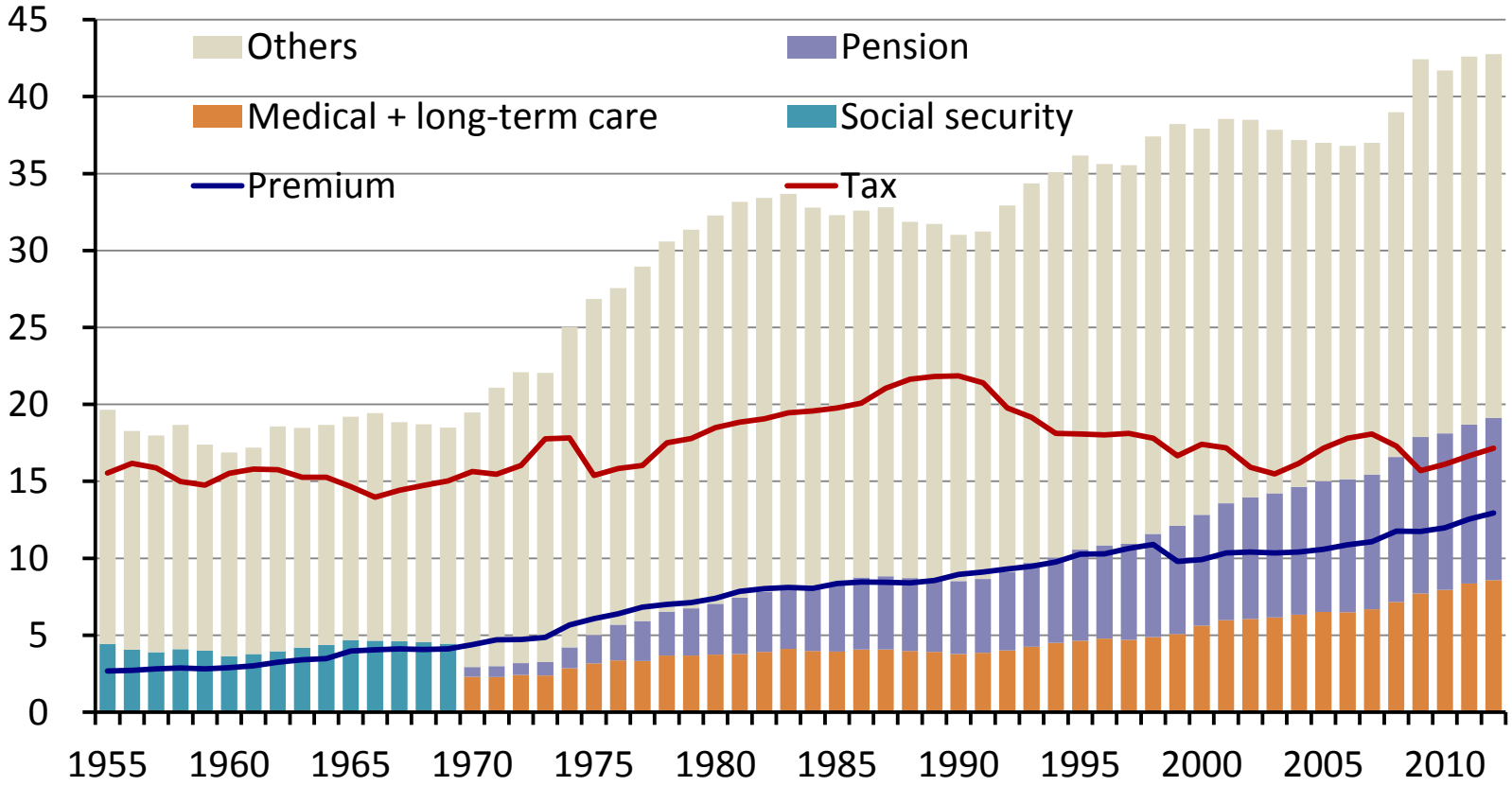
Fiscal situation in Japan

- Long-term debt outstanding of Japanese governments
  - More than 200% of GDP
  - But still deep in red: 12% of GDP (FY2010, SNA, general govt)



Size of public health insurance benefits

- GDP share is growing
  - (Pension + health)/spending > 40%
  - Insurance contributions < benefits

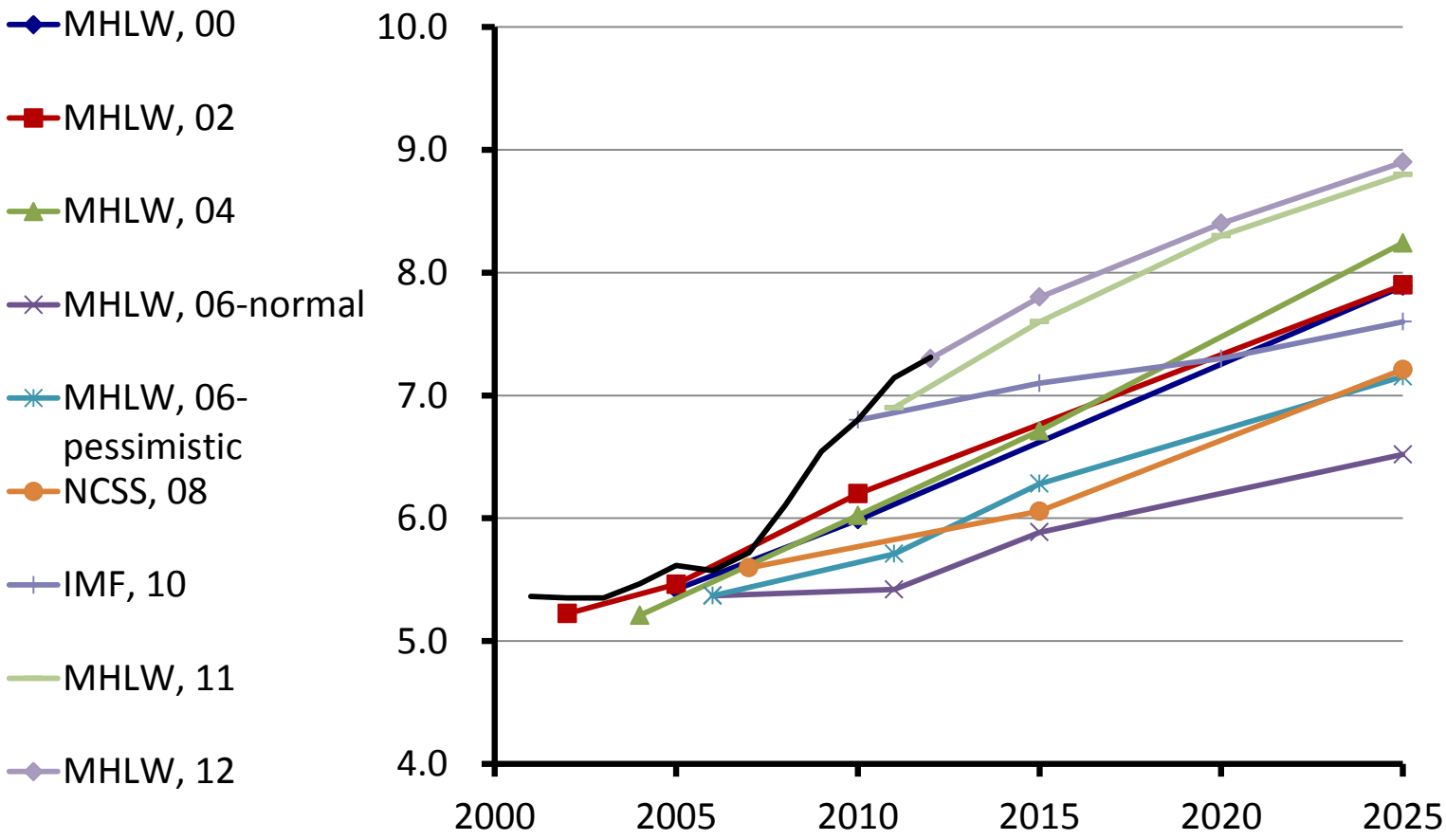


Health insurance is more difficult

- Pension insurance reforms
  - Many issues remains, but…
  - Macroeconomic slide formula
    - Helps pension sustainability maintained
    - But it may need more intergovernmental transfers
- Health insurance is hard to cut down because…
  - People expect to receive state-of-the-art medicine
    - New technology is often expensive
    - (a matter of life)
  - Health expenditures are driven by technology progress
    - Population ageing is not a major driver
  - It is hard to forecast the expenditure size.

Health expenditure projections

- Projections of health benefits/GDP
  - Revisions raised health expenditures

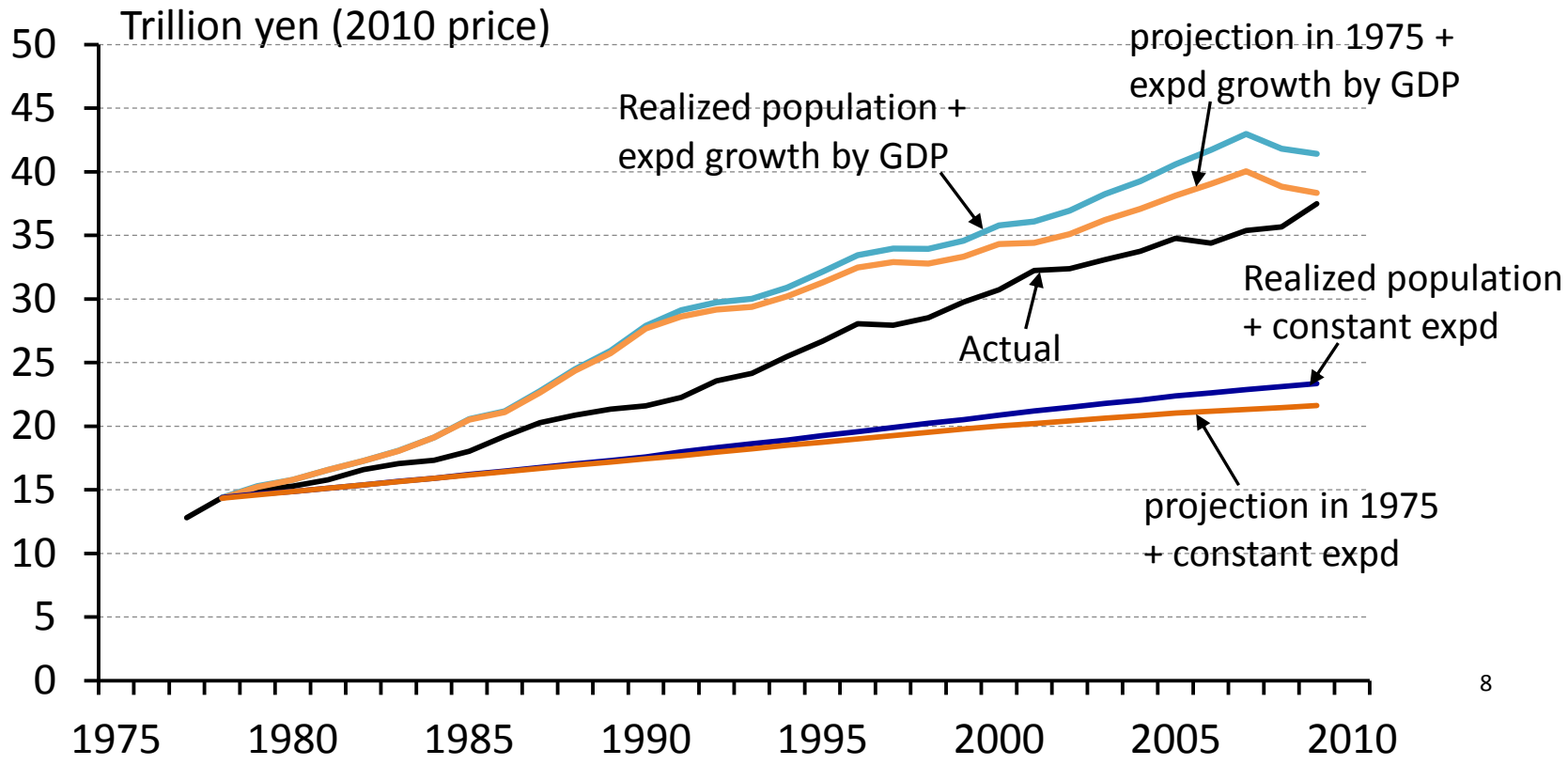


Projections of health care expenditures

- Standard method
  - Aggregate expd = sum of expd for each age groups
    - Expd for each age group = population * expd per capita
    - Population: Official population projections
    - Expd per capita: Same as reference year
    - Each age group can be divided into further groups: health status
  - Growth rate of expenditure per capita (in real terms)
    - Constant (0%), or same as GDP (per capita) growth rate
    - ECG (excess cost growth) = health care expd growth – GDP growth
- Some variations in projections of expenditures per capita
  - To reflect “reforms”, longevity, difference in the past, …
  - “General equilibrium effects” are often assumed out.

If we had forecasted in 1975, …?

- Overestimation if expd per capita grows by the same rate as GDP
  - Ageing is not a main factor.



Excess cost growth

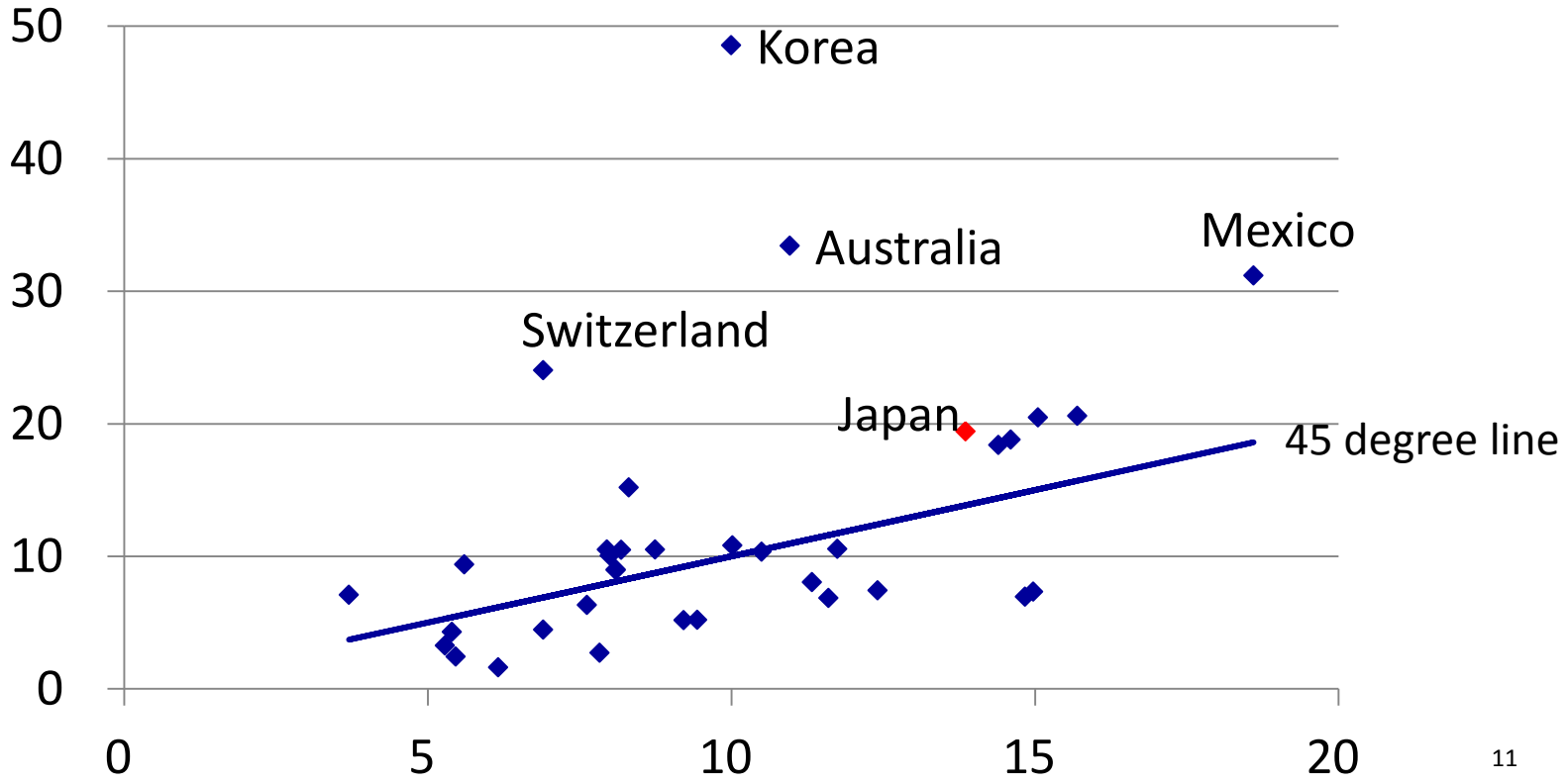
- Usually, health expenditures grow faster than GDP
  - The difference is called “excess cost growth”
  - Probably due to medical technological progress
- Japan is unusual in this aspect
  - Excess cost growth has been negative
  - Politics depressed expenditures by fee schedule revision
    - In *chu-i-kyo* (Central Social Insurance Medical Council)
- But will it be the case?
  - Slow economic growth is expected
  - Can politics can hold down the expenditures?
    - “Medical Collapse” in some areas (in terms of geography as well as speciality)

Concerns of inequality/distribution

- Larger disparities in the elderly
  - Keio economists (including our President) pointed out.
    - Seike and Yamada (2005), Yamada (2005)
    - Disparities in labor income
    - Disparities in pension benefits: proportional to earnings in younger days.
- Not so progressive taxation/social insurance premiums
  - Personal income taxation system has became less progressive
    - Late 1970's to 2000's: "Incentives to work"
    - Deduction of the number of brackets and the top marginal tax rate: Almost proportional tax

Relative poverty rate by age group

- Poverty rate for the elderly is higher than that for working age (before-redistribution basis)
  - Not usual among OECD countries

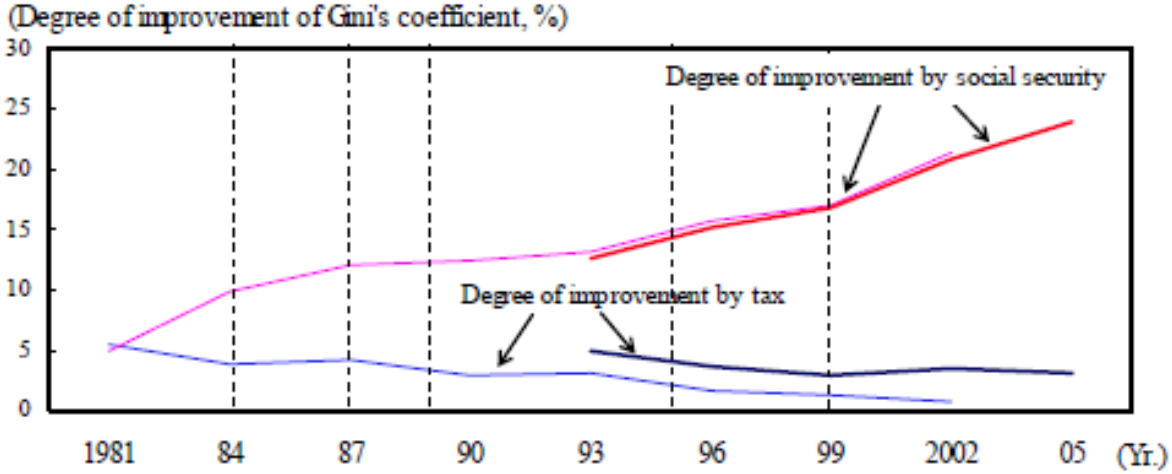


History of Japanese income taxation

- The redistribution function by tax has decreased

	1970	1980	1990	2000	2010
# brackets (national)	19	19	5	4	6
Top marginal rate	75%	75%	50%	37%	40%
# brackets (prefectural)	2	2	2	2	1
Top marginal rate	4%	4%	4%	3%	4%
# brackets (municipal)	13	13	3	3	1
Top marginal rate	14%	14%	11%	10%	6%

(2) Breakdown of degree of improvement of Gini's coefficient



Source: "Income Redistribution survey", Ministry of Health, Labour and Welfare. In above figure (2), thin line indicates an old style and thick line indicates a new style announced after 2005.

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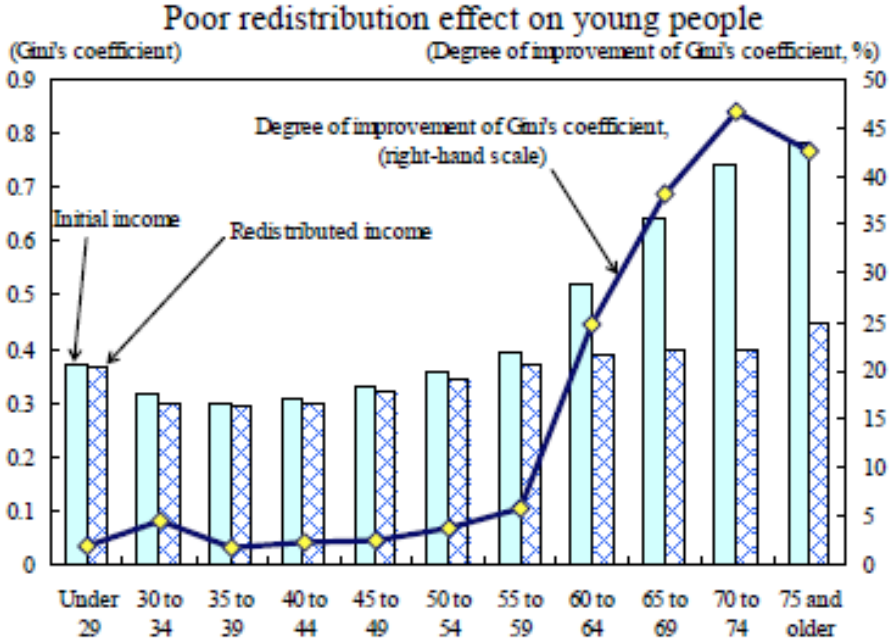
Redistribution among the elderly?

- Social security system decrease Gini coefficients
  - Especially for the elderly

Figure 3-2-16 Changes in Income Gap (Gini's Coefficient) before and after Redistribution by Age



Source: "Income Redistribution Survey 2005", Ministry of Health, Labour and Welfare. Redistribution effect by householder's age

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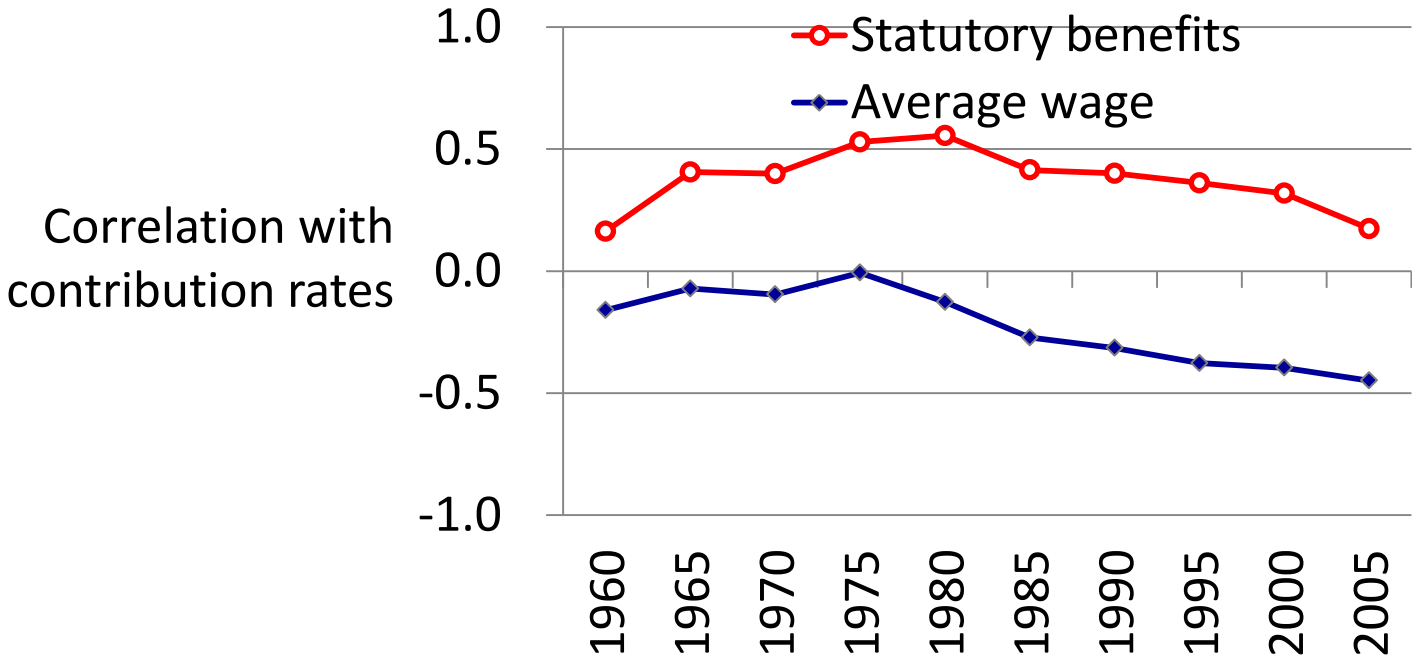
Regressive insurance contributions

- Social security contribution is almost payroll tax.
  - Fixed rate of earnings for pension insurance
  - Contribution rates differ among firms in health insurance
    - Association-Managed health insurance (*Kumiai kenpo*)
    - Workers in large (rich) companies are healthy



My two issues

- Fiscal sustainability in an ageing economy
  - Yes, truly important.

1. Health insurance is more difficult than pension
   - Japan has managed health expenditures
2. Concerns of inequality/distribution
   - Larger disparities in the elderly have been adjusted by social security

- Note that
  - VAT is not an only way, how about PIC & property tax?
  - Evidence-based policy on expenditure side as well as revenue side is also required
    - Cross-disciplinary collaboration among scientists