effect from lowering of the transfer payments to HSE would be more than offset by the negative effect of the gradual increase in the population of age 70-74 which are covered by CHI by this reform (Figure 6).

Figure 4. Projections of Health Insurance Budgets
(Baseline cases)

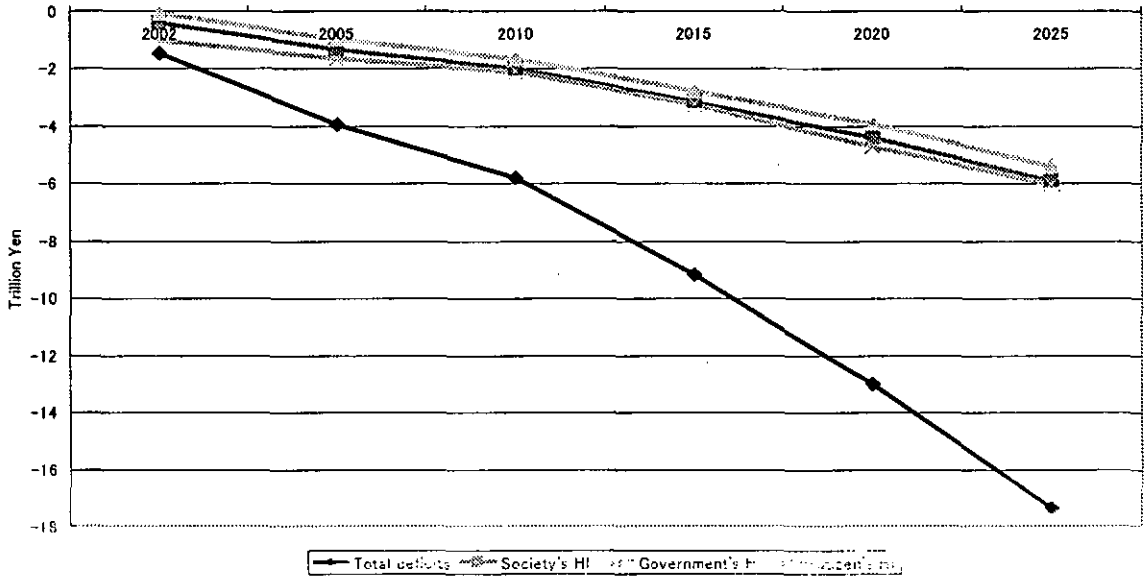
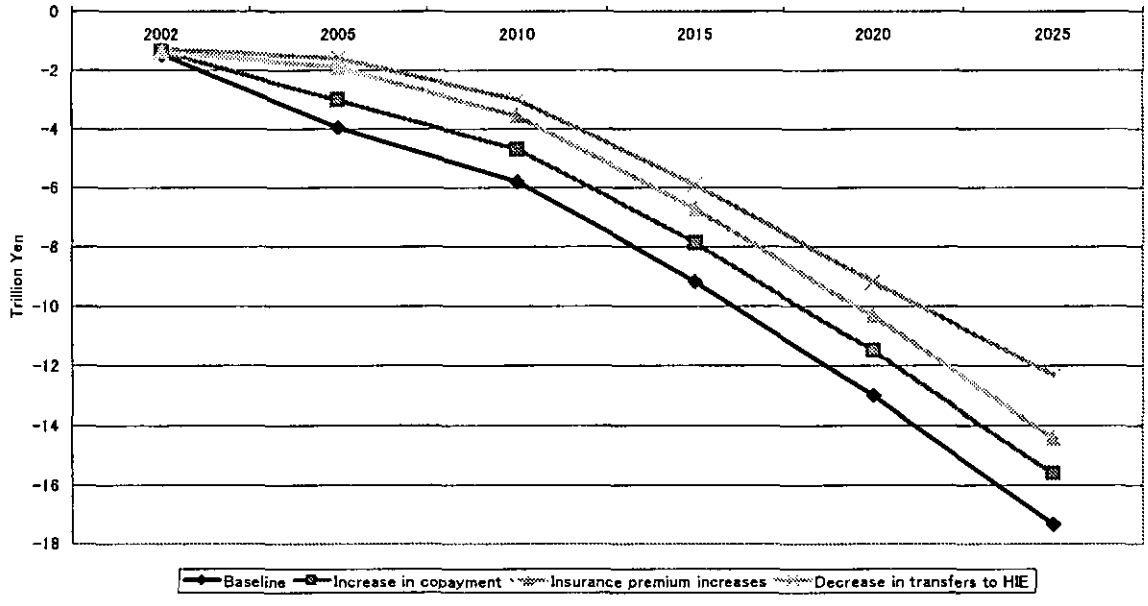
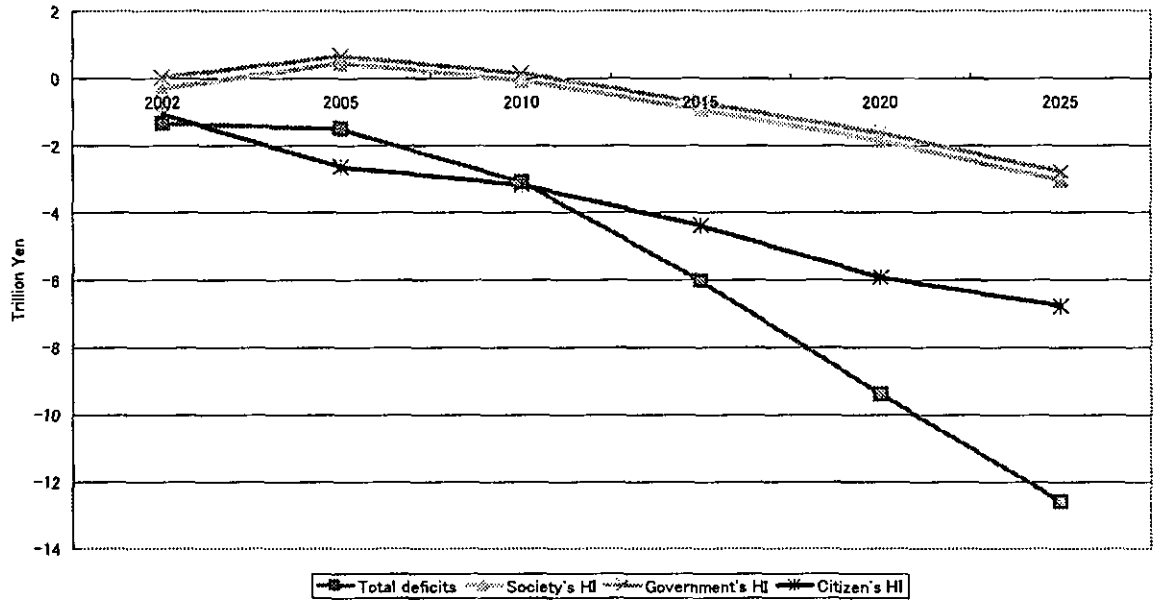


Figure 5. Effects of the Health Insurance Reform
(Contributions of various reforms)



needed, thereby lowering "effective" co-payment ratio as a result.

Figure 6. Projections of the Health Insurance Budget
(After the reform)



3) Policy Implications

A major implication of the above analysis indicates that an increasing co-payment ratio and revenue-sharing mechanism between individual health insurance providers are not sufficient for attaining the sustainable fiscal balance in the long-run. Further reform agenda under discussions are the following:

First, creating an independent health scheme for the elderly. This is included in the basic plan for the health reform in the end of March 2003 targeted in 2008 by the Ministry of Health and Welfare. This is based on the two-layer scheme consisting of those who are age 65-74 and of age 75 and above, which correspond to the current Retirees' Account in the CHI and Health System for the Elderly (HSE) respectively. Though the details of the reform are not yet clear, a basic idea behind is to separate the costly health care services for the elderly from that for the non-elderly, and leave it to an independent health scheme which is financed by the tax revenue and contributions by other health plans.

Second, standardization of medical treatments has not been established, and medical costs largely vary across hospitals in Japan (Kawabuchi and Shigehara 2003). It is mainly because the way medical doctors are trained is compartmentalized and the best practice on medical treatment is in most cases not established. Also, it is difficult to accumulate the data on health costs for health insurance providers. A

major factor behind is a primitive method in reviewing the bills for reimbursement by intermediary clearing organizations. Bills are printed in papers in hospitals, and sent to the government intermediary clearing organizations for check, and then sent again to insurance providers for additional checking. If medical bills are directly sent from hospitals to insurance providers by the Internet, health cost data are more easily accumulated with much less costs. The administrative barriers against using the IT network for treating health bills are gradually removed recently. This is a step toward accessing the standard cost for medical treatment leading to the prospective payment system.

Third, allowing the combined use of private insurance with public health insurance schemes. Currently, patients have to choose either to use public health insurance alone or not to use it at all for a series of medical treatments in hospitals with a few exceptions such as amenities, selected medical treatments with high technology[14], dental materials, reservation etc. This restriction that doctors are not allowed to ask patients to pay additional medical costs not covered by public insurance makes it quite difficult to use a variety of medical treatments different from a uniform formula under the current fees for service system. Introducing the mixed cost financing between public and private insurances for th[illegible] hospitals w[illegible] certain level of health service provision but [illegible] from the private health insurance can provide with resources for financing the better quality health services; two, this would stimulate the incentives of hospitals to improve the health care services; three, substituting the expansion of public health expenditure by the private health expenditures.

Conclusion

Japan's health care system, which has been successful in the past-war period, is now facing a series of structural problems mainly arising from the aging of the population. The combination of fees for service with free-access to health services has put a potential pressure on increasing budget expenditures particularly with an increasing number of the elderly. The government has tried to alleviate the pressure by various revisions in the 1990s.

Conclusion

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[14] When a new medical treatment with high technology is first introduced, the costs for using are not usually covered by the public insurance. Instead, the patients are subsidized a part of the costs by the public insurance until the technology is widely used and eventually fully-covered by the insurance.

Japan's health care system, which has been successful in the past-war period, is now facing a series of structural problems mainly arising from the aging of the population. The combination of fees for service with free-access to health services has put a potential pressure on increasing budget expenditures particularly with an increasing number of the elderly. The government has tried to alleviate the pressure in the 1990s.

One is the establishment of the Long-term Nursing Care Insurance for the frail elderly in 2000. Though this reform intended to move the care for the frail elderly from hospitals to nursing homes, the effect can be marginal with the free access to hospitals basically maintained. Another is raising the co-payment ratio and limiting the costly age group of the Health System for the Elderly. However, the positive fiscal impact of the reform is projected to be limited in the short-run. It is merely to shift the fiscal burden between government and various health insurance providers.

In order to establish the health care system to be sustainable even at the peak of aging, the more drastic reform is needed to limit the expansion of the public health insurance by substituting partly with private health insurance. The 2002 reform in [illegible] services.

Another major reform was the establishment of the Long-term Nursing Care Insurance for the frail elderly in 2000. Though this reform intended to move the care for the frail elderly from hospitals to nursing homes, the effect has been marginal with the free access to hospitals basically maintained.

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