Questions About Expanded Participation and the "Sustainability" of Japan's Long-Term Care Insurance System

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1. Present Situation

Ahead of the Long-Term Care (LTC) Insurance System revision slated to take effect in April 2006, sweeping changes are being studied by the Subcommittee on Long-term Care and Benefits of the Social Security Council, an advisory group to the Ministry of Health, Labor and Welfare. In addition to revision of the LTC Insurance Law, a key issue under debate is whether to expand the scope of participation to persons age 20 to 39.

Currently, participants of LTC insurance are divided into two categories based on age: category 1 participants are age 65 and over, and category 2 participants are age 40 to 64 (Figure 1).

Figure 1 Participation in the LTC Insurance System

	Category 1	Category 2
Scope of participants	All persons age 65+	Persons age 40–64 who participate in health insurance
Benefit eligibility	Based on assessment of any care need	Based on assessment of aging-related disabilities only
Premium payment method	Collected by municipal govt. (deducted from pension or paid in by individuals)	Collected with health insurance premium
No. of participants	23.93 million persons	42.65 million persons
Premium income	¥806.3 billion	¥1.5384 trillion
Persons certified for benefits	3.324 million persons	121,000 persons
Persons receiving benefits	2.461 million persons	79,000 persons
Benefit expenditures	¥4.5 trillion	¥0.13 trillion

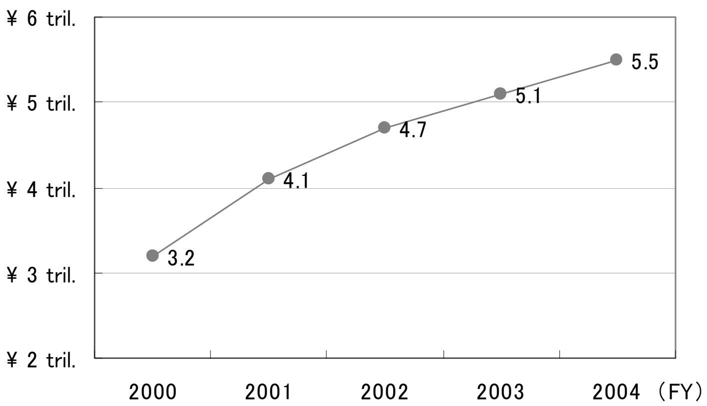
Note: As of fiscal 2002.
Source: Compiled from documents of the Subcommittee on Long-term Care and Benefits, Social Security Council.

Excluding the 10% copayment paid by LTC service users, the LTC insurance system is financed half by general taxes, and half by premiums. Since the allocation of premiums between the two categories is based on their population ratio, category 2 participants currently finance 32% of benefit expenditures while category 1 participants account for 18%. However, due in part to stringent eligibility requirements, category 2 users number only 3.5% that of category 1 participants, and receive only 2.8% the benefits of category 1 users.

2. Significance of Expanded Participation

Generally, when participation is expanded in social insurance programs, more people become eligible for benefits, and more people pay in premiums. With LTC insurance, since young people aged 20 to 39 are very unlikely to be afflicted by aging-related disabilities, the expansion will boost premium income but increase benefit expenditures minimally. This is essentially what proponents of expansion mean when they speak of enhancing the system's "sustainability" (Figure 2).

Figure 2　LTC Benefit Expenditures



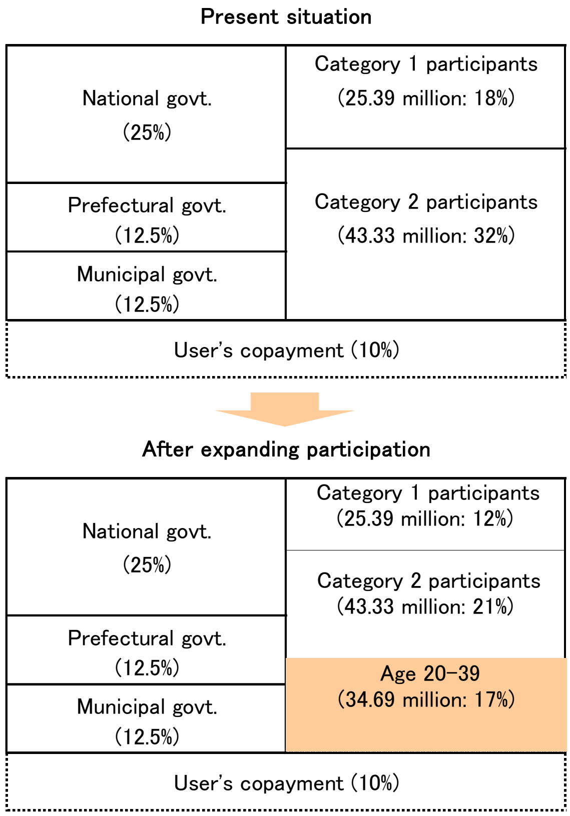
Note: Shows actual values to FY 2002, revised budget for FY 2003, and budget proposal for FY 2004.
Source: Compiled from documents of the Long-term Care Insurance Subcommittee, Social Security Council.

Indeed, our observation is backed by the fact that over the past five years, no investigations have been made into the minor benefit expenditures and stringent benefit eligibility requirements (regarding aging-related disabilities) of category 2 participants.

Below we examine how the expansion of premium-paying participants will change the financing structure of LTC insurance. Assuming that premiums continue to finance 50% of the system, and that the burden of premiums is allocated across age brackets according to the population ratio, we predict the financing structure will change as in Figure 3.

As of 2005, the addition of a new layer of participants age 20 to 39 will reduce the burden of category 1 participants from 18% to 12%. Nonetheless, we predict that category 1 participants will eventually pay higher premiums than today due to two secular trends—the growth in benefit expenditures as more persons become eligible and start receiving benefits, and the decrease in category 2 participants including persons aged 20 to 39.

Figure 3 Composition of Financing After Proposed Expansion (2005)



Source: Compiled from National Institute of Population and Social Security Research, *Population Projections for Japan: 2001-2050, January 2002*.

3. Striking a Balance with Other Considerations

To expand the scope of participation to the 20 to 39 age bracket, the foremost requirement is to earn the acceptance of the general public, particularly since they are also being imposed additional burdens to sustain the pension and health care systems.

When the LTC insurance system was enacted in 1999, the existence of category 2 participants aged 40 to 64 was justified as follows: (1) they face a growing risk of aging-related disabilities such as the early onset of senile dementia or cerebrovascular disorder; and (2) they can fully appreciate the need for LTC insurance since their own parents will likely be using LTC services.

However, no compelling reason has yet been offered for the proposed expansion, other than to ensure the "sustainability" of the system. At present, less than 0.3% of category 2 participants are certified as in need of long-term care, and only 0.2% actually use LTC services. Moreover, even experts on the government's own advisory panels argue that the proposed integration of disability benefits is premature. Thus the real intention of the expansion appears to be none other than to increase the number of premium-paying participants without having to expand benefit expenditures.

Some would argue that the concept of inter-generational burden sharing comes into play. But burden sharing entails that younger generations are first persuaded of the need. Thrusting mandatory participation on them will inevitably generate alienation and misunderstanding between generations as has happened with the ailing pension system. Instead, we believe that the issue of expanded participation should be approached from the perspective of engaging younger generations to think about long-term care insurance as a highly relevant issue.

The debate on expanded participation must be framed in terms of the concepts underlying the social insurance system. This includes revising the stringent eligibility requirements, and emphasizing the localization concept of the LTC insurance system (for instance, empowering municipalities to decide for themselves on the issue of expanded participation).