# Japanese Health Reform through Managed Care

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[Abstract]

The American public has benefited from a respite from the relentless climb in healthcare costs. We hear that it is attributed to "managed care." The concept of managed care originated in the US because, in principle, their health delivery system is based on the free market and their health plan is based on private insurance. We, Japanese don't have such a system, but have a well-regulated social health insurance system. Therefore, Japanese researchers are groping to understand American managed care.
Starting my research about managed care at the Harvard School of Public Health in July, 1997, I found several reasons why information on American managed care was inconsistent. Moreover, I discovered in 1997 that there was no consensus about the definition of managed care among researchers in the US. I also discovered that there were huge backlashes among Americans against managed care.
I concluded from my preliminary research that this ambiguity resulted from the fact that managed care has been changing very dynamically.

As the American managed care exists as a huge business now, I challenged to describe it by modeling from the view point of its function on trilateral exchange, i.e., payers, purchasers (as intermediaries) and providers.
I understand that American managed care emerged between the purchasers and the providers by taking utilization management for healthcare resources away from the providers.
Then, I conclude that the raison d'être of managed care is the principle of private health plans to share risks among the players evenly.

The Japanese Total Health Expenditures basically aggregate the amount of money that the health insurers pay for patients of their enrollees. Though the government calls their statistics "National Healthcare Expenditures" instead of THE, we soon realize that the NHE are also climbing relentlessly. Under the conditions of matured economic growth and an aging society, the government should control the balance between the resource money and the benefits for their universal health plan.
The social health insurance system originally have no logical scheme and/or mechanism to balance premiums and benefits. But it must account for the sustainability of the system to their enrollees clearly. That is to say, it must explain that it is capable of balancing its money resources (premiums plus subsidies) and benefits.

The raison d'être of managed care shows the balance mechanism. A proposal by the National Bipartisan Commission on the Future of Medicare (March 16, 1999), recommends that the American government should apply managed care to their social health plan Medicare, by admitting beneficiaries to enroll in ether a traditional government-run fee-for-service plan or a private health insurance plan.
The Japanese government is also beginning to discuss a mixed health insurance market under its universal health coverage. However, it is very controversial because such a two-tier system would be an equitable health care system, which conflicts with the Japanese cultural value of egalitarianism. Therefore, it is unthinkable that American managed care can apply to the Japanese health system directly. But it is important for Japanese health reform to draw lessons from American managed care technology for utilization management.

If such management technology were available for Japanese health insurers, it would become a strong enabler for the Japanese health reform. Especially, if the insurers could outsource the managed care, they could expect a continuous quality improvement of managed care technology from the market competition among the outsourced managed care organizations.
Therefore, I propose a few ideas to transfer the American managed care technology to Japan, which includes the results of preliminary political analyses.

**American Managed Care reviewed from Japan**

The American public has benefited from a respite from the relentless climb in healthcare costs. We hear that it is attributed to "managed care." (Final Presentation: page 2)

However, the information about managed care from the US to Japan has been confusing Japanese researchers because of fragmental and inconsistent reports. For instance, the available figures of HMO enrollees are different among the American research companies. The information from the west coast about managed care sounds exaggerated, compared to other areas in the US, etc. (FP: page 3-4)

The concept of managed care originated in the US because, in principle, their health delivery system is based on the free market and their health plan is based on private insurance. We, Japanese don’t have such a system, but have a well-regulated social health insurance system. Therefore, Japanese researchers are groping to understand American managed care. It can be

compared to the Indian anecdote where three blind men are asked to describe an elephant: because each one touches a different part of the elephant, each one describes the elephant differently. (FP: page 5)

Starting my research about managed care at the Harvard School of Public Health in July, 1997, I found several reasons why information on American managed care was inconsistent (FP: page 6-8):
- Because managed care was consist of several disciplines.
- Because managed care was fragmented by state and by location.
- Because Americans' consciousness about managed care was low.

Moreover, I discovered in 1997 that there was no consensus about the definition of managed care among researchers in the US. I also discovered that there were huge backlashes among Americans against managed care.
(FP: page 9-10)

I concluded from my preliminary research that this ambiguity resulted from the fact that managed care has been changing very dynamically.
(FP: page 11-12)

**Model Analysis about the emergence of managed care in the US**

As the American managed care exists as a huge business now, I challenged to describe it by modeling from the view point of its function on trilateral exchange, i.e., payers, purchasers (as intermediaries) and providers.
I understand that American managed care emerged between the purchasers and the providers by taking utilization management for healthcare resources away from the providers. (FP: page 13-17)

Then, I conclude here that the raison d'etre of managed care is the principle of private health plans to share risks among the players evenly.
(FP: page 18-21)

**Ailed health insurance system in Japan**

The growth of Japanese Total Health Expenditures appears slower than

the US. But, strictly speaking, we cannot compare both statistics, because their aggregated items are different. The Japanese statistics basically aggregate the amount of money that the health insurers pay for patients of their enrollees. In this sense, we don't have a figure of THE like the US which shows more realistic demand for health care services. Though the Japanese government calls their statistics "National Healthcare Expenditures" instead of THE, we soon realize that the NHE are also climbing relentlessly. (FP: page 22-23)

Under the statutory health insurance system, once the Japanese government controlled the NHE by the cost-price method very well, but have been facing serious financial problems for more than a decade. Trying to reform the universal health plan, they have predominantly carried out raising premiums and copayments of patients. (FP: page 24-25)

In the Japanese social health insurance system, there isn't any bargaining power for insurers' side. The amount of the money that the insurers pool for the health plans does not match the health care risks, because it only receives the percentage of enrollees' incomes they can afford to pay. The government subsidizes the deficits by using tax money. Moreover, the government virtually decides the benefits. This means that the insurers aren't required to manage any finances but only to collect contributions and/or premiums. (FP: page 26)

Under the conditions of matured economic growth and an aging society, the government should control the balance between the resource money and the benefits for their universal health plan. When they simply keep raising premiums, the consumers eventually object. Cutting back on services by limiting benefits has to be proven equally unpalatable. Then, the Japanese government is seriously required to reengineer the insurance system by using radical means. (FP: page 27)

**Can Managed Care ideas reform the Japanese health insurance system ?**

The social health insurance system originally had no logical scheme and/or mechanism to balance premiums and benefits. But it must account for the sustainability of the system to their enrollees clearly. That is to say, it must explain that it is capable of balancing its money resources (premiums plus

subsidies) and benefits. (FP: page 28-29)

The raison d'etre of managed care shows the balance mechanism. A proposal by the National Bipartisan Commission on the Future of Medicare (March 16, 1999), recommended that the American government should apply managed care to their social health plan Medicare, by admitting beneficiaries to enroll in either a traditional government-run fee-for-service plan, or a private managed care health plan. The proposal, i.e., the Breaux-Thomas Proposal, describes it with the name of market-based Premium Support model, which aims to have private plans control health costs. (FP: page 30-31)

The Medicare system already allows the elderly to opt into private health plans, that is to say, Medicare managed-care plans, and about 7 million of the 39 million beneficiaries have done so because those plans offer drug coverage and lower deductibles. (FP: page 32)

However, several private managed care health plans abruptly decided to pull out of Medicare last year because the premiums were not covering their costs. That left 400,000 beneficiaries scrambling to find new doctors. The Breaux-Thomas Proposal does not adequately address such difficulties yet. This means the Premium Support model is not completed yet. But the Premium Support model is expected to be a great solution to sustain social health insurance system. (FP: page 33)

Currently, such a Premium Support model is available only in the US because they already have an infrastructure to implement it. In other words, only the US has enough managed care organizations to implement this mode across the country. (FP: page 34)

The Japanese government is also beginning to discuss a mixed health insurance market under its universal health coverage. However, it is very controversial because such a two-tier system would not be an equitable health care system, which conflicts with the Japanese cultural value of egalitarianism. Therefore, it is unthinkable that American managed care can apply to the Japanese health system directly. But it is important for Japanese health reform to draw lessons from American managed care technology for utilization management. (FP: page 35-37)

## Concluding proposals

If such management technology were available for Japanese health insurers, it would become a strong enabler for the Japanese health reform. Especially, if the insurers could outsource the managed care, they could expect a continuous quality improvement of managed care technology from the market competition among the outsourced managed care organizations. Therefore, as the first step, I propose the following ideas to transfer the American managed care technology to Japan, which includes the results of preliminary political analyses. (FP: page 38-48)

- Promote courses of healthcare management in Japanese graduate schools and train specialists to install the managed care technology, because there are little medical professionals like MD&MPHs (or MD&MBAs) and/or RN&MPHs (or RN&MBAs) who are the key persons for utilization management in managed care.

- Establish a consortium, called the Managed Care Technology Transfer Association, with cooperation of both domestic and foreign organizations including private companies initiated by Japanese government.

- Deregulate for private insurance companies to enter into health plan market and to start managed care plan.

## Acknowledgement

I heartily thank Dr. Michael Reich, Harvard School of Public Health for his generous support on my research work. I also thank Ms. Catherine Haskell for her help in reviewing the manuscript.