Presentation for American Medical Devices and Diagnostics Manufacturer's Association

The Obama Administration's Healthcare Reform and Implications to Japan

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Outline of the Patient Protection and Affordable Care Act (1)

(1) Provision of healthcare coverage to the uninsured

- **Set up "health insurance exchange" in each state (starting in 2014). Through this market, provide insurance at the premium level affordable for employers of small-to-medium-sized businesses. Subsidize low-income insured persons. When employees receive subsidies through the exchange, impose penalty on their employers.**
- **Subsidize each state to set up a program to encourage the establishment of a nonprofit cooperative health insurance system (optional).**
- **Businesses with more than 200 employees are required to provide health insurance to the employees. Businesses with more than 50 employees have the choice of either providing health insurance or paying penalty. Small businesses with less than 50 employees are exempt from both (starting in 2014).**
- **Set up a system to subsidize the premium burden on small-to-medium-sized businesses (starting in 2010).**

Outline of the Patient Protection and Affordable Care Act (2)

(2) Provision of healthcare coverage to the uninsured

- **Individuals (US citizens and legal residents) are required to buy health insurance (starting in 2014).**

  As a penalty to those who do not buy insurance, households are required to pay a tax of $695 to 2,085 or 2.5% of the household income annually.
- **Set up a system to subsidize the premium burden on small-to-medium-sized businesses (starting in 2010).**
- **Expand Medicaid (healthcare plan for people with low incomes) (up to 133% of the federal poverty standard in principle) (starting in 2014).**

  Through these measures, reduce the number of uninsured persons by about 32 million in ten years, and raise the healthcare coverage rate from 83% to 94%.

Outline of the Patient Protection and Affordable Care Act (3)

(3) Provision of security and stability to those who are insured and those who wish to buy health insurance.

- **Tighten regulations on health insurance companies. Prohibit to deny insurance based on previous diseases. Tighten regulations on insurance premium pricing and benefits package. Prohibit the establishment of an upper limit on annual benefits (starting in 2014).**
- **Alleviate the burden on the elderly for paying outpatient subscription drug. Reduce the self-pay ratio from 100% to 25% for the amount exceeding $2,850 a year per person in Medicare Part D called the "doughnut hole" (starting in 2011).**

(4) Reduction of healthcare cost.

- **Streamline Medicare and Medicaid. Establish a new Medicare independent benefit advisory committee. Implement an experimental program for inclusive payment.**
- **Promote studies on the relative effectiveness of medical treatment.**

Outline of the Patient Protection and Affordable Care Act (4)

(5) Fiscal effect

- **As shown below, the total cost needed for the reform is estimated to be $938 billion in ten years. Make efforts to secure adequate revenue sources by raising taxes and streamlining Medicare, and in the mean time, reduce the related budget deficits of the federal government by $143 billion.**

Cost needed for the reform (About ¥938 billion)	**Increased support for Medicaid**	**$434 billion**
	Insurance premium deduction in healthcare exchange	**$464 billion**
	Others	**$40 billion**
Major revenue sources for the reform (About $200 billion additionally)	**Streamlining of Medicare**	**$455 billion**
	Raising of the social security tax rate for the higher income group	**$210 billion**
	Contribution from healthcare-related businesses	**$107 billion**
	Penalty from individuals/business owners	**$65 billion**
	Tax imposition on high premium plans	**$32 billion**

Trends after the start of the administration until the enactment of the bill

- Expanded SCHIP (February 4, 2009). Raised the household annual income to the $66,000 level.
- Enacted the American Recovery and Reinvestment Act (February 17)
  - Health IT, Comparative effectiveness research, Medicaid support
- Administrative policy speech (February 24)
  - Next fiscal budget is the first step toward the comprehensive healthcare reform.
- Budget Message (February 26). Presented the eight principles of the healthcare reform.
- Budget resolution (April 29). Mandatory fiscal neutrality in the coming decade.
- President Obama's speech to a joint session of Congress (September 9).
  - Appealed to the whole nation for the importance of healthcare reform.
- House proposal resolution (November 7). Passed by a narrow margin of 220 to 215.
  - 39 Democrats opposed and 1 Republican in favor.
- Senate proposal resolution (December 24), 60 to 39.
  - All Democrats and independents in favor, and all Republicans opposed.
- House re-passed the Senate proposal (March 21, 2010), and the President signed on the23rd.
  - A narrow margin of 7 votes, 219 in favor and 212 opposed. 34 Democrats and all Republicans opposed.
- Senate and House passed the revised part of the Senate proposal (March 25), and the President signed on the 30th.

Implications of US Healthcare Reform

- **Victory of “ordinary people” toward disparity adjustment.**
  ～Universal healthcare system is nothing special in advanced countries.
- **A risky gamble on the major issue that split public opinion into two turned out to be successful.**
  ～Preferential selection of an unpopular policy issue.
  ～Political foundation not strong enough to aim at social security reform.
- **Criticisms such as “too many compromises weakened the philosophy” and “the government is becoming too big” are not appropriate.**
- **The president showed strong leadership, cooperating with Congress in an amazing manner to reach the enactment in only two months after the brink of withdrawal.**
- **Public opinion underestimates the benefits of the reform.**

Advent of the Obama Administration and the pattern of conflict over the healthcare reform

- **Obama emphasizes the “integration of America”, “one America”**

  “There's not a liberal America and a conservative America - there's the United States of America. There's not a black America and white America and Latino America and Asian America; there's the United States of America.”

  ～Keynote address at the Democratic National Convention in July 2004.

- **Reality of the healthcare reform is the most intense political conflict.**

① Conflict among people: insured vs. uninsured people, wealthy vs. poor people, elderly vs. young people.

② Conflict among groups: medical associations, hospital associations, industry associations, private medical insurance associations, pharmaceutical company associations, etc.

③ Conflict at the political party level: Democrats vs. Republicans, serious conflict between liberals and moderates (conservatives) within the Democratic Party.

～Basic pattern of conflict over the healthcare reform: next slide.

Basic pattern of conflict over the healthcare reform

① Expansion of public healthcare, tightening of public regulations ～ single payer

② Positive attitude to tax raise. Also positive toward increasing public spending.

- Democrats' liberal wing emphasizes the role of the government.
- Democrats' moderate wing (conservatives) emphasizes the role of businesses.

  ① Put more importance on private insurance system provided by employers.

  ～ Neither the government (liberal) nor individuals (Republicans), but the "third way."

  ② Keep expansion of public insurance to a minimum, and take advantage of private/market principles.

  ③ Eliminate the uninsured, but maintain fiscal discipline. Critical of tax raising.
- Republicans emphasize the role of individuals.

  ① Emphasize that individuals should purchase insurance on their own and take full responsibility for controlling their medical expenses.

  ② Expand the out-of-pocket range and introduce health savings account.

  ～ See the pattern of conflict over the healthcare/security system reform (1) & (2).

Pattern of conflict over the healthcare/security system reform (1)

Party (faction)	Democrats' liberal	Democrats' moderate (conservative)	Republicans
Ideology	Liberalism	"Third way"	Conservatism
Focus of reform approach	Government	Business	Individual
Major means for reducing the uninsured	Expand public health insurance system	Expand private insurance, particularly insurance system provided by employers	Promote private insurance individuals buy directly without involving government and businesses
Major means for reducing healthcare cost	Introduction of rigid public regulations, Centralized control of healthcare budget	Appreciating market competition among private insurers, Privatizing public insurers	Valuing individual responsibility for healthcare payment, assisted by Medical Savings Accounts etc.
Positioning of the existing private insurance system	Reduction/abolishment	Maintain/expand while addressing the issues	Change toward a direction to put more importance on individual liberty and self responsibility

Pattern of conflict over the healthcare/security system reform (2)

Party (faction)	Democrats' liberal	Democrats' moderate (conservative)	Republicans
Financial means	Tax raise	Tax exemption	Tax exemption/ healthcare savings account
Scope of reform	Drastic (universal healthcare system)	Drastic (universal healthcare system)	Incremental
Specific approach	Single payer system	Controlled competition	Consumer-led healthcare
Outline	Through the expansion of the public healthcare system by the government, build a system where every person gets healthcare coverage equally. Reduce healthcare cost by streamlining the system through such means as building an integrated universal healthcare system under the government (and further reinforcing public regulations) and reducing administrative operation cost.	Keep the pubic healthcare system (and public regulations) to the minimum, and instead, maintain and expand the currently dominant private insurance system provided by employers. In doing so, place importance on political strategies such as provision of tax exemption. Actively promoting market competition, privatization of the public healthcare system, and implementation of balanced budget.	Place importance on the system where individuals purchase insurance directly and contribute/control healthcare cost under the principle of freedom and self-responsibility. For that purpose, promote insurance plans for personal purchase, create healthcare saving accounts, and increase cost sharing. Establish a system where consumers purchase healthcare services through free choice with clear cost consciousness.

Obama Administration's reform Favorable political environment

- **Escalation of healthcare problems**

  ① Increasingly many businesses cease to provide insurance due to worsening economic depression.

  ② Raising unemployment rate ～ Increase in the number of the uninsured.
- **Predominance of the Democratic Party in congress ～ 60 in the Senate（/100）, 255 in the House（/435）.**

  ① 60 seats allow for the avoidance of filibuster.

  ② The problem is the Democratic Party is not monolithic.
- **Development of reform at the state level.**

  ～ Realization of state universal insurance system in Massachusetts in April 2006.
- **Key organizations do not strongly oppose, but rather, they react favorably.**

  ～ On the other hand, people of the Republican conservative wing are becoming active in counterdemonstrations.

Characteristics of American healthcare system

- **Absence of universal healthcare system.**

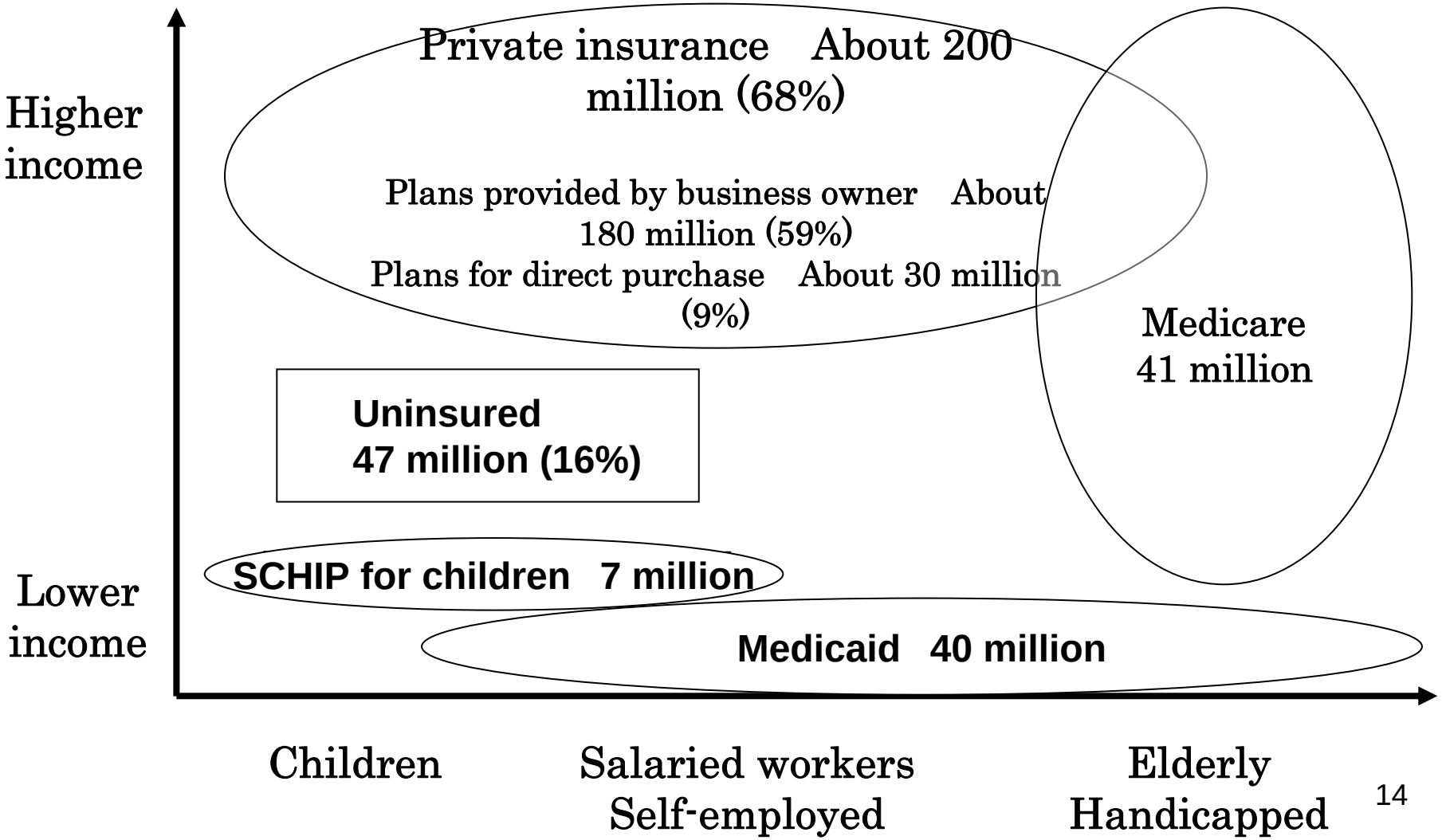
  Failed in 1910s, 40s and 70s. The Clinton reform in 1993 and 94 also failed. Public pension program started in 1935.
- **Limited public healthcare plan.**

  Medicare (for the elderly 65 years old and above) and Medicaid (for the poor) were born in 1965. State Children's Health Insurance Program (SCHIP) also expanded.
- **Private health insurance system plays a central role.**

  ① Insurance provided by employers: Only big businesses can provide.

  ② Insurance plans for personal purchase: Employees of small-to-medium-sized businesses and self-employed individuals (about 26 million) buy this kind of insurance plan.

Overview of US healthcare system



Overview of US healthcare cost (2007)

Population: About 300 million

Population over 65 years of age: About 37 million

GDP: $13.8 trillion

National healthcare expenditure: $2.2 trillion (16% against GDP)

of which, private $1.2 trillion

public $1.0 trillion

of which, federal government $0.7 trillion

state government and others $0.3 trillion

Per capita healthcare expenditure : $7,421

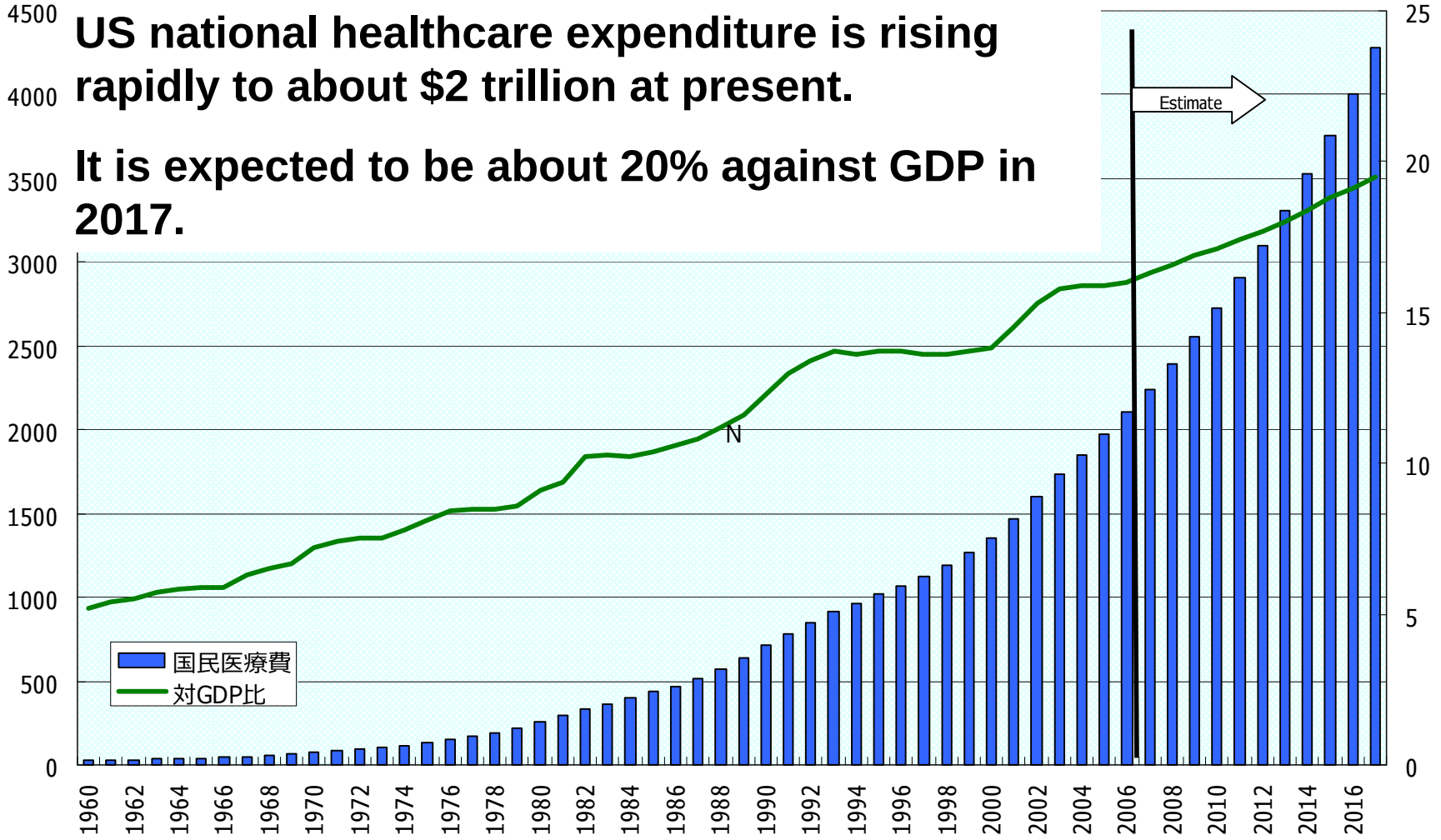
Soaring US healthcare cost

($1 billion)

(%)

US national healthcare expenditure is rising rapidly to about $2 trillion at present.

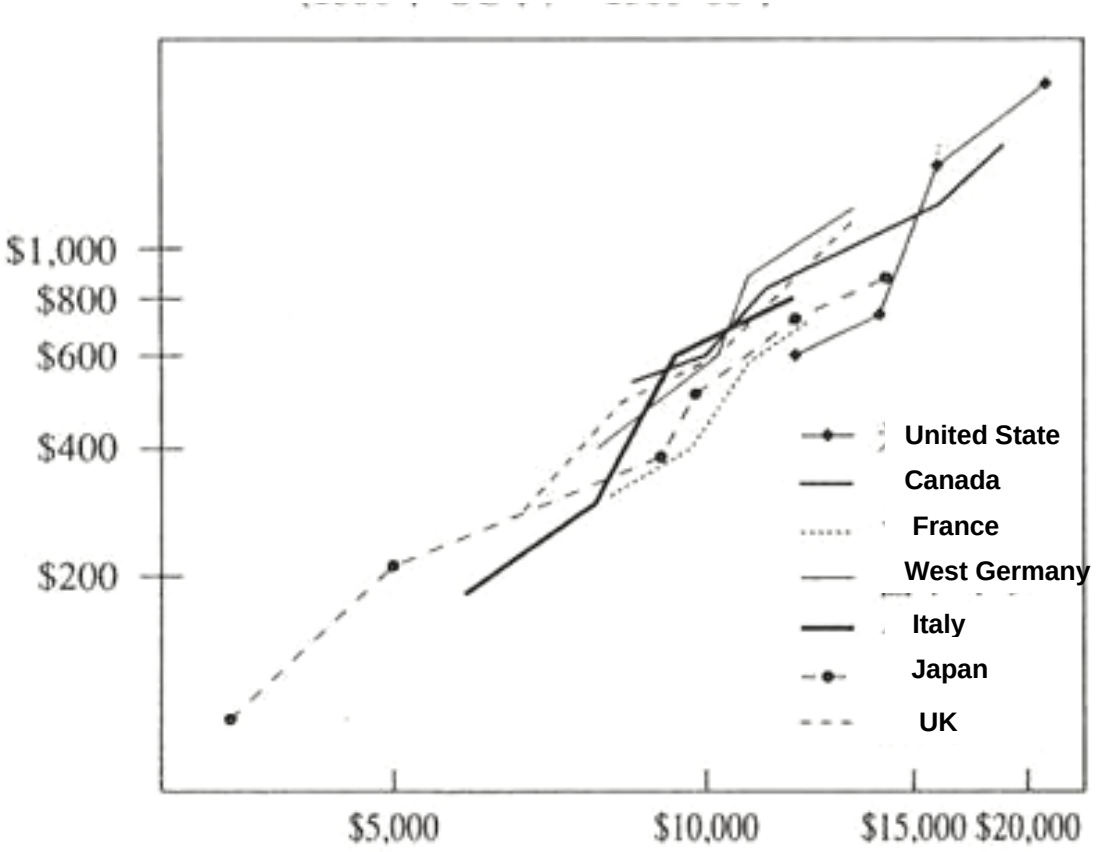
It is expected to be about 20% against GDP in 2017.



National Health Expenditure (NHE) Amounts by Type of Expenditure and Source of Funds: Calendar Years 1965-2017 in PROJECTIONS format（Centers for Medicare & Medicare Services）

Growth of per capita income and healthcare cost: Comparison between key countries (1960 – 1985)

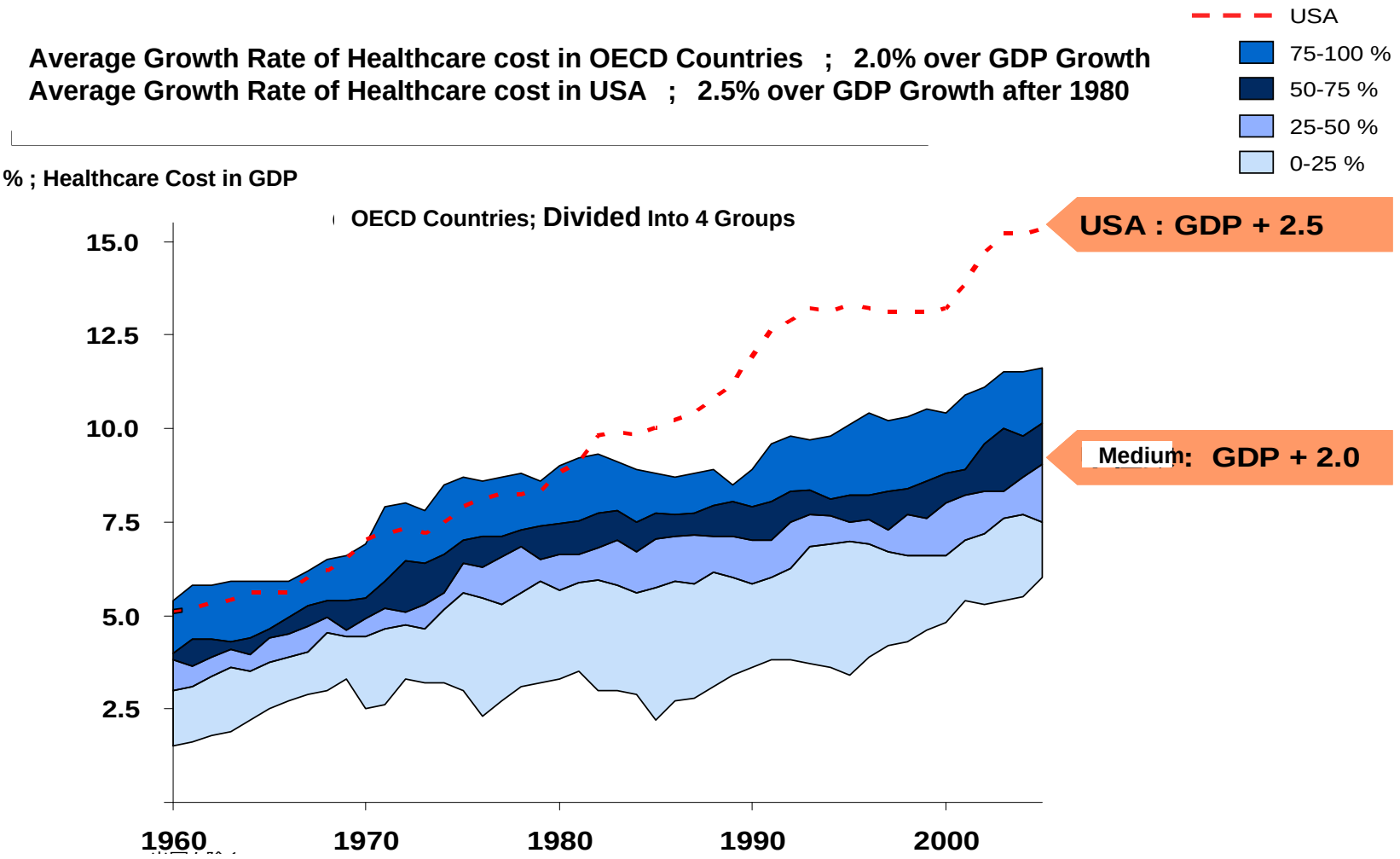
US$; 1990 Value



Source : Getzen (1995), p36

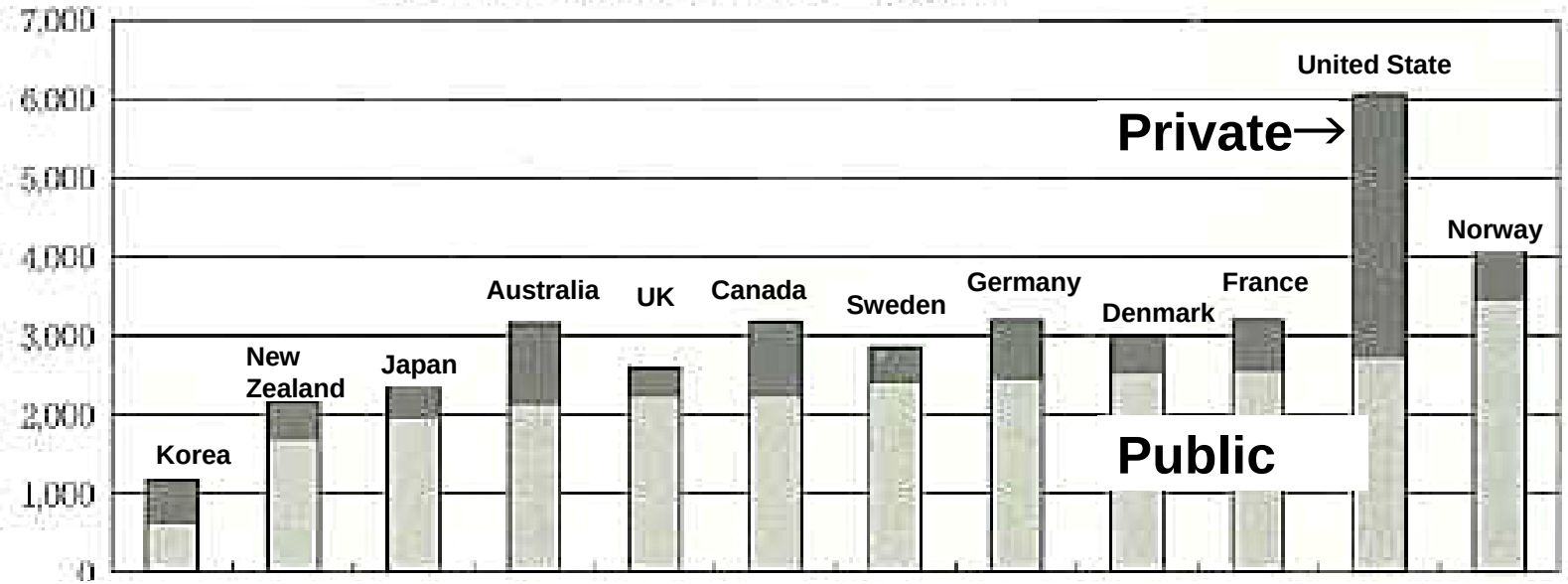
Relationships between the growth of healthcare cost (percentage of healthcare cost in GDP) and the economic growth rate

Average Growth Rate of Healthcare cost in OECD Countries ; 2.0% over GDP Growth
Average Growth Rate of Healthcare cost in USA ; 2.5% over GDP Growth after 1980



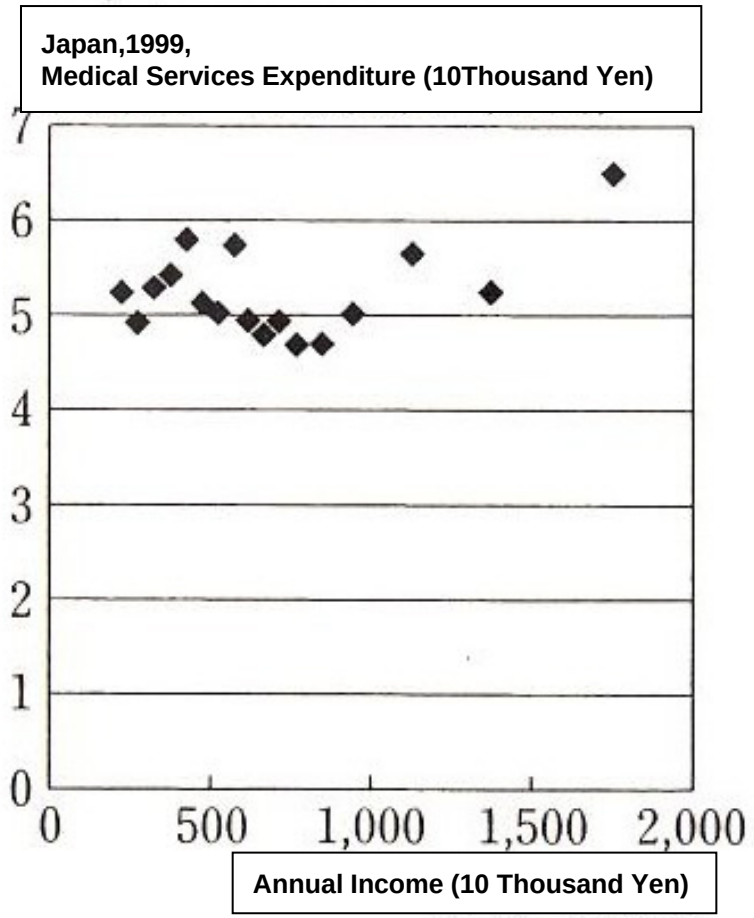
Source ; Report by Mckinsey Consulting, 9 Sep. 2008

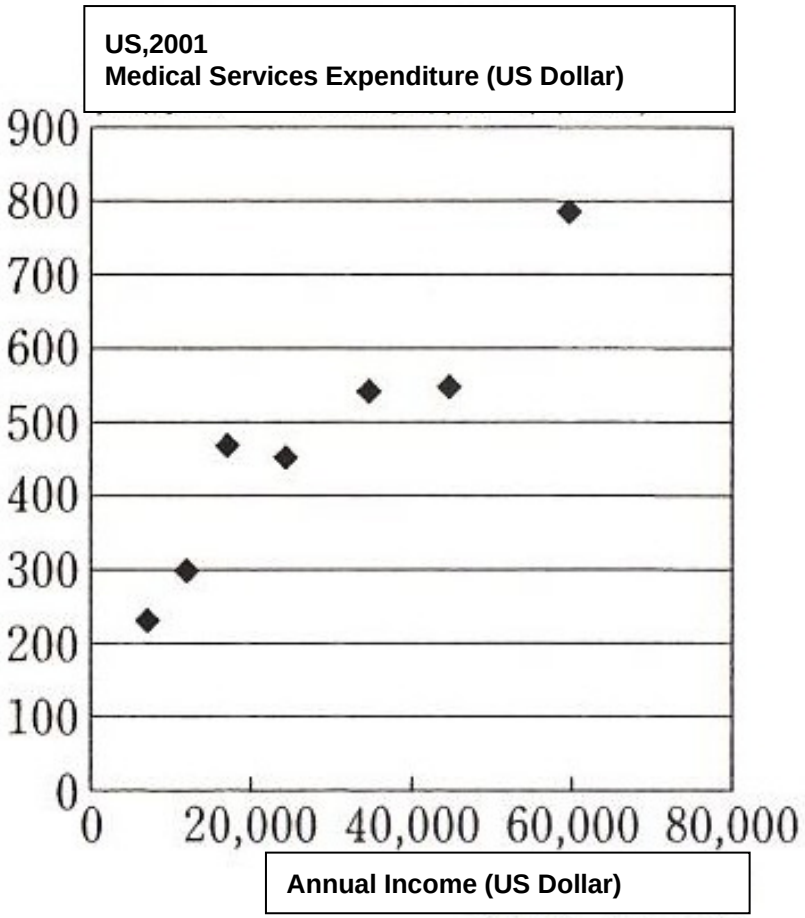
Breakdown of public and private spending in per capita healthcare cost (US dollar, purchasing power parity, 2005)



Source; OECD Healthcare Data 2008

Comparison of income and healthcare service spending between US and Japan





Source; “De-regulation on Healthcare field - Market-enlargement Effects by introduction of pro-payment system by both insurance-covered and uncovered” by Reiko Suzuki & Naohiro Yashiro (2004)

Problem of the uninsured in the United States

- **Uninsured 47 mullion (2007)**
  15.7% of the total population
  (Roughly flat for the past 20 years)

- **Decrease in health insurance provided by employers, mainly among small-to-medium-sized businesses.**

- **Increasingly severe economic situations.**
  Unemployment rate up 1% → 24 million people lose coverage
  One half goes to Madicaid and SCHIP.
  One half becomes uninsured.

Problems of US healthcare (1)

- **Existence of a large number of uninsured people**
  - **Pre-existing condition and cherry picking**
- **Soaring healthcare cost**
  - **Co-existence of insurance systems and cost shifting**
  - **Inefficiency (enormous amount of insurance administrative expenses, etc.)**
  - **Legal costs**
  - **Medical tourism**
- **Quality of healthcare**
  - **Preventive medicine**
  - **Malpractice**

Problems of US healthcare (2)
Factors that interfere with reform

- **Market competition principle above anything else.**
  Market principles do not fit into medicine.
  "Price" does not function.
  (Asymmetry of information, existence of health reimbursement, healthy life of an individual is irreplaceable.)

- **Distrust/rejection of government regulations/involvement.**
  "Socialized Medicine"
  (Treatment limit already exists to a respectable degree in private insurance.)

- **Excessive lobbying activities.**

Public healthcare plan in the United States
(1) Medicare (1965)

- Launched under the Johnson Administration (Democratic party dominated both in the Senate and the House)
- "Part A" covers hospitalization expenses:
  - Mandatory imposition contribution from employers and employees (social security tax)
  - Existence of coalition between contribution and benefit (= social insurance)

    Contribution in proportion to income (= provision of income redistribution function)
- "Part B" covers outpatient expenses:
  - Arbitrarily. Payment of insurance premium required.
  - Fixed amount contribution (but with incorporation into general revenue)
- "Part D" outpatient prescription drug benefit, added in 2003:
  - Beneficiaries join an optional plan of a private insurance company approved by the government. Medicare pays about 50% flat to the plan, and the company operates the plan with premiums and copayment from the beneficiaries.

(2) Medicaid (1965)

- Launched under the Johnson Administration (Democratic party)
  - The entire amount is from the general account budget (= public services).
  - States operate Medicaid with subsidies from the federal government ～ Federal and state cooperative program.

- Reasons for institutional difference from Medicare:
  - Independent program for the low-income group already in existence at the state level.
  - Background of the legislative process.

    Republicans and the American Medical Association advocated the federal and state cooperative program system.

Private health insurance system of the United States～ Success of HMO and managed care

○ Nixon Administration (Republican)
- 1973 HMO
  Required as an option of health insurance provided by employers.
- 1976
  Expansion of federal subsidies, relaxation of regulations.

○ Reagan Administration (Republican)
- 1982 TEFRA
  Encouraged Medicare beneficiaries to join HMO.

○ Clinton Administration (Democrat)
- 1990s Succedss of managed care.

Please refer to “Who killed Health Care－America′s $2 trillion medical problem and the consumer-driven cure” written by Regina Herzlinger, Professor,Harvard Business School (Mcgraw-Hill,2009)

Implications to Japan

- **Policy of strict adherence to fiscal discipline.**

  All of the expenses needed for the establishment of an universal healthcare system shall be covered by tax increases, contributions from related industries and money squeezed from existing systems, and not even a cent shall be added to the budget deficit.

  (Japan permits budget deficit, and opposes raising of health insurance premiums that are markedly lower than those of Europe and the United States. Level of health insurance premiums: Germany 14.6%, France 13.9%, Japan public program for small & medium enterprises 8.2%, private union program average 7.3%)

- **Require businesses to provide health insurance.**

  (It is not made mandatory in Japan, and increasingly many health insurance societies are dissolving.)

- **Promote prevention and include the reinforcement of public health in health insurance.**

  (In Japan, prevention and tests are not covered by insurance in principle.)

Comparison of 3 major health insurance systems of Japan

	National program	Public Program	Union program
Number of insurers	1,818	1	1,541
Number of insured persons	47.38 million	35.94 million	30.47 million
Average age	55.2	37.6	34.5
(Excluding those who are 70 years of age and above)	(44.6)	(35.2)	(33.3)
Percentage of persons 70 years of age and above	22.5%	3.9%	1.8%
Average index monthly earnings		¥283,000	¥370,000
Average household income (2006 estimate)	¥1.31 million	¥2.29 million	¥3.7 million
Premium adjustment per household	¥143,000	¥158,000	¥171,000
Public funding	43% of disbursements	13%	Minimum
FY 2009 budget	¥2,843.5 billion	¥863.5 billion	¥2.8 billion
Per capita practice cost	¥177,000	¥116,000	¥102,000

Notes: ①The percentage of those who are 70 years of age and above includes bedridden/elderly persons 65 years of age and above. Those who are covered by the healthcare programs for the elderly are cxcluded from the per capita practice cost. 2006. ③ Health, Labour and Welfare Ministry. Data as of the end of March 2007 if not otherwise specified. Source: “Health Care System in Asia” edited by Prof. Masko Ii,p249