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Intergenerational fairness in long-term care financing: lessons from Japan

The report describes the current system in the financing of long-term care (LTC) in Japan, and considers the roles of and relationships between the different levels of government and sectors. It discusses the key implications in terms of intergenerational fairness and financial sustainability.

Yuichi Imanaka (imanaka-y@umin.net), Noriko Sasaki, Etsu Goto; School of Public Health, Kyoto University

Key findings

- **Japan has had an LTC insurance system since 2000 for all citizens aged 40 years and older.** Public financing is provided in the form of insurance premiums and public transfers. The main insurers are the municipalities.
- **Significant intergenerational transfer mechanisms are embedded within the system.** Around 50% of total revenues are from social contributions (i.e. insurance premiums) contributed equally by the secondary and primary insured population groups of working age (40–64 years) and older (≥ 65 years), respectively. The primary insured group (i.e. those aged ≥ 65 years) are considered more likely to need LTC.
- **Public transfers from consumption taxes finance half of total LTC revenues.** Given the variations in expenditure patterns by age, such transfers also entail some intergenerational redistribution.
- **Mechanisms are in place to ensure that payments (insurance premiums and out-of-pocket payments or OOPs) are affordable.** Insurance premiums for older people vary by income. For the population group aged 40–64 years, premiums are levied on earned income; OOPs are also related to income. Lower-income earners pay 10% of total service costs defined by their care plan, which increases to 20% and 30% for higher-income earners. During 2020, about 4% of people with LTC certification paid the maximum 30% rate and 5% paid 20%. Those with very low incomes unable to pay 10% of total costs can still access services.
- **As primary insurers, municipalities have access to different funds to pool risks and ensure financial sustainability.** Insurance premiums paid by people aged 40–64 years are combined and distributed to the municipalities. One fifth of public funds transferred from the central government is distributed to municipalities using a system that compensates those with higher proportions of older and/or lower-income population groups. The Financial Stability Fund – financed in equal parts by the central government, prefectures (middle levels of government) and municipalities – provides subsidies or loans to municipalities in cases of unexpected high levels of expenditure.
- **Data are being acquired to inform evidence-based care.** The Long-term care Information system For Evidence (LIFE) gathers data on the demographic and health properties of users over time to monitor and improve quality. Participation in this system is currently voluntary; financial incentives are available to encourage involvement.

Lessons for other settings

- **Intergenerational transfers can increase societal support for LTC and smooth the demographic transition, enabling fairness in financing.**

People of working age contribute to the financing of LTC; it is anticipated that by giving such generations a stake in the system, the scope for intergenerational conflicts may be reduced. By levying insurance premiums on both working-age and older populations, LTC insurance systems become less dependent on financing from a diminishing working-age population.

- **Broadening the financial base for LTC reduces its vulnerability to economic shifts.**

About one quarter of LTC funding is sourced from the premiums of working-age individuals at levels based on their income, which may be less stable during periods of economic recession. Public funding (mostly from consumption taxes) finances one half of LTC insurance, increasing the stability of the financing system.

- **Ensuring ability to pay is key, which can be achieved by levying insurance premiums and OOPs according to level of income.**

Payment for care may still be too high for some low-income groups; some forms of exemptions from OOPs may therefore be needed for low-income individuals.

- **Pooling risks and resources is essential to ensure fiscal sustainability, particularly in insurance-based systems.**

Given that municipalities act as the insurers, several risk-pooling mechanisms must be created to ensure both financial sustainability and equity between municipalities of different demographic and income population profiles.

- **Data are an important tool to generate evidence and inform improvements.**

LTC systems have the potential to generate significant amounts of data (e.g. from users when being assessed for care needs). Such data can be used to monitor improvements, reward quality of care (e.g. by tying payments to quality of care) and generate evidence for policy-makers.

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