## Vision sought by Comprehensive Reform of Social Security and Tax

- Increasing investment for the future (children and child raising) and enhancing measures against poverty and income inequality -

## Situations calling for social security reform

Changes in the employment base, e.g. increase of irregular employment

Changes in family form and communities

Aging population & decreasing working generations

Rapid increase of social security costs because of the aging population

- Because of relatively heavy benefits to older people, livelihood risks of working generations are not sufficiently covered.
- Measures against poverty problems and widening income inequality are insufficient.
- Most of social security costs are financed with deficit-covering government bonds, passing the burden on to future generations.

Need to enhance social security function to meet social/economic changes



Rebuilding a social security system whereby all the people, including working generations, can better realize the benefits

#### Key elements of reform

- ◆ Support independence of every citizen based on <u>mutual assistance and cooperation</u>
- ◆ Simultaneously implement functional enhancement and thorough prioritization/rationalization of benefits
- Emphasize <u>fairness</u> not only among generations but also <u>within a generation</u>
- Give higher priority in reform to (1) children and young people, (2) medical and long-term care services, (3) pension, and (4) measures against poverty and income inequality
- Expand allocation of consumption tax revenue to four fields: pension, medical care, long-term care, childcare < four costs of social security>
- ◆ Simultaneously achieve <u>stable financial resources for social security and fiscal consolidation</u>
  ⇒Incrementally raise the consumption tax rate (national and local) to 8% in April 2014 and to10% in October 2015
- ◆ Enhance the base for the social security system through employment promotion

### **Reform directions**



Increase investment for the future (support for children and child raising)

Establish a new system to support children and child raising

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Enhance both security of medical/long-term care services and insurance system's safety-net functions

- Establish an integrated community care system
- Enhance safety-net functions of medical/long-term care insurance systems
- Simultaneously revise medical service fees and long-term care fees

3

Enhance measures against poverty and income inequality (build a multilayered safety net)

- Comprehensively promote review of measures for the needy and the public assistance system
- Create a total accumulation system

4

Build a social security system meeting diverse work styles

- Extend social insurance to part- time workers
- Consider a new pension system

5

Realize a society with participation of all the people and decent work

 Consider legislation concerning fixed-term labor contracts, part-time work, and elderly employment **\_6** 

- Secure stable financial resources for social security system
- Increase the consumption tax rate (e.g. secure stable financial resources to ensure that 50% of the basic pension is funded by the national treasury)

## Direction of reform



## Increase investment for the future (support for children and child raising)

(\*as of 2008)

- Establish a new system for children and child raising-

- Resolve the problem of the waiting-list children and integration of kindergarten and day nursery
- Enhance community-based childcare support under the responsibility of municipal government



# A society friendly to child bearing and rearing



## Major reforms under review

O Resolution of the problem of the waiting-list children (quantitative expansion of childcare and after-school children's clubs). Improvement of expertise of childcare staff and reinforcement of structure

- Increase the volume of childcare service while maintaining quality (childcare service provided by preschools [provisionally called "kodomo-en"] designated by the government)
- Make various childcare services (e.g. small facilities, Childcare Moms) to meet regional needs
- Expand after-school children's clubs to increase the number of places where children can stay until their parents return home

## OEstablishment of a system to provide high-quality school education and childcare in an integrated manner (integration of kindergarten and day nursery)

- Build integrated facilities (provisional name) that combine advantages of both kindergarten and nursery (integration of facilities)
- Unify school education and nursery benefits to preschool children (establishment of preschools, [integration of benefits])
  - → Elimination of double administration and integration of benefits in order to make the system easier to use for citizens, service providers and municipal governments

#### OEnhancement of support to help child-raising parents in communities

Community childcare support centers 7,100 sites  $\rightarrow$  10,000 sites

Temporary childcare 3.48 mil. children in total  $\rightarrow$  39.52 mil.

Family Support Center program 637 municipalities  $\rightarrow$  950 municipalities

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- Enhance community-based childcare support, e.g. by building more places for consultation and exchange for parents and children (community childcare support centers, e.g. Childcare Square) and places for temporary childcare
- To allow expectant mothers to give birth to children safety and with peace of mind, give them access to necessary examinations for maternity health check-ups in any municipality
- O Systematic enhancement of childcare support in accordance with the needs of local people under the responsibility of every municipality



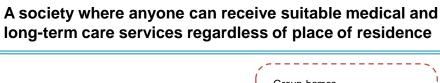
## Enhance security of medical/long-term care services

17→29 patients)

(Daily capacity

Home-visit nursing

- Enhance inpatient medical care through intensive input of medical care resources into highly acute phase
- Improve home medical care and build an integrated community care system



## Reform concept (1.6 to 2-fold increase in staff) When you get sick Acute-phase hospital Advanced medical care e.g. emergency, surgery Early discharge Subacute-/recovery-phase rehabilitation hospital Local partner hospital Intensive rehabilitation →Early recovery I recovered well and returned home Family doctor

Total management

- Home medical care coordination center
- Community General Support Center
- Care manager



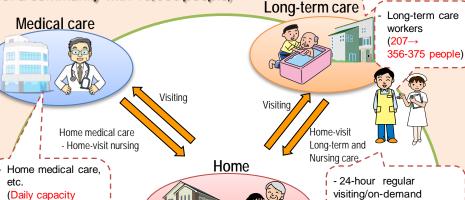
- Promote smooth shift from medical care to long-term care
   Coordinate counseling
- Coordinate counseling
   and other services

## When you leave hospital

<Integrated community care system>
(for a community with 10,000 people)

 Group homes (capacity for 16→37 people)
 Multifunctional small facilities

- $(0.25\rightarrow 2 \text{ sites})$
- Day services, etc.



- 24-hour regular visiting/on-demand response services (for 15 patients)

Home or services housing for elderly

\*A community assumed in integrated community care is a junior high school district with a population of about 10,000.

Old people's clubs, residents' associations, preventive care, living support, etc.

## Living support and preventive care

- Division of roles among local hospitals, key hospitals, and recovery-phase hospital, leading to closer collaboration
- Earlier rehabilitation in society enabled by smooth process from onset and hospitalization to recovery phase and discharge from hospital

\*The figures for the present are as of 2011, and target figures for 2025.

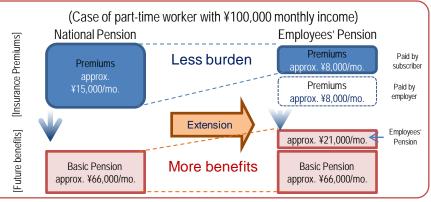
- Provide security regardless of work style
- Reduce burden on patients receiving long-term, expensive medical care
- Consider income inequality in strengthening financial base and enhancing insurer's functions
- Improve inter- and intra-generational fairness



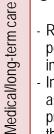
Mutual assistance = More powerful safety-net functions of social insurance

## Major reforms under review

- O Extend employees' pension and health insurance programs to more part-time workers
- By subscribing to an employee's pension program, one can receive an employee's pension in addition to basic pension
- By subscribing to a health insurance program, one can receive sickness and injury allowances and maternity allowance
- Since half the insurance premiums is paid by the employer, the <u>subscriber pays smaller</u> amounts of insurance premiums than subscribers of National Pension and National Health Insurance.



- O Add benefits to basic pension recipients with low income
- O Shorten eligible period to more closely link insurance premiums paid to benefits
- O Remove the measure to pay pensions higher than regular amounts by suspending an indexed pension under exemption law
- O Exempt mothers on maternity leave from payment of employees' pension insurance premiums
- O Review the high-cost medical care benefit system
  - Consider revenue source and measures needed for improvement of the highcost medical care benefit system (aim to set annual payment limits for patients, following the adoption of a system to provide in-kind outpatients' payments)
- O Review the elderly medical care system
  - Review the elderly medical care system based on report by the Elderly
- O Redarding medical care Sustem Reform Council Redarding medical care subsidies for patients of intractable diseases, aim to establish a fairer and steadier support system (including expansion of the scope of rare/intractable diseases eligible for subsidies), with legislation in view



- O Stabilize the financial base of National Health Insurance and long-term care insurance
- Reduce the burden of insurance premiums on low-income insured persons of municipal National Health Insurance and long-term care insurance
- Increase financial support for municipal National Health Insurance as the last strongholds of universal health insurance and promote prefecture-based financial management in order to stabilize the financial base

Medical care

care

medical

Pension &

Direction of reform 3 Enhance measures against poverty and income inequality (build a multilayered safety net)

- Help all those wishing to work find employment
- Give detailed consideration to low-income earners (fine-tuned measures using social security benefits, etc.)

## A society in which all citizens can participate



## Major reforms under review

## **Employment measures**

#### [First net: Social/labor insurance]

- Establishment of total accumulation system (provided that data integration platform, e.g. identification number system, is introduced)
- Reduce the burden by setting limits based on the entire family livelihood rather than by individual systems (e.g. medical care, long-term care, childcare, disability)
- Extension of social insurance to part-time workers and enhancement of measures for low-income earners

#### Reduction of insurance contribution

#### [Health insurance]

O Further reduction of insurance premiums of low-income earners in municipality National Health Insurance (up to approx. ¥220 billion)

#### [Long-term care insurance]

O Further reduction of the insurance premiums of Primary Insured Persons to be paid by lowincome earners (up to approx. ¥130 billion)

## [Second net: Job-seeker support system]

- Implementation of job-seeker support system
- Support those not eligible for employment insurance benefits through a system whereby they can receive benefits while engaging in vocational training, and help them swiftly find jobs,

#### [Third net: Public assistance]

- Employment assistance for public assistance recipients
- Help public assistance recipients in cooperation with Hello Work Offices to allow them to swiftly find jobs and become independent
- \*Enhance measures to prevent inappropriate receiving of public assistance

#### Establish and implement "Living Support Strategy" (provisional name)

- Integrated implementation of measures for the needy and review of the public assistance system
- (1) Promotion of measures for the needy
  - i) Develop a mid-term national plan for assisting the needy
  - ii) Systematize life independence support services for the independence of the needy
- (2) Review of the public assistance system Specifically discuss and promote the review of the public assistance system, including revision of the law, with local governments

Multilayered safety net

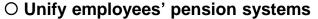
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- Extend social insurance to more part-time workers
- Exempt mothers on maternity leave from payment of insurance contribution
- Unify employees' pensions
- Review the No. 3 insured person system of the pension
- Review the old-age pension for active employees



A social security system fair to diverse life styles, including child bearing and rearing

## Major reforms under review

- O Extend the employees' pension and health insurance to more part-time workers
- O Exempt mothers on maternity leave from payment of employees' pension insurance contribution
- Reduce financial burdens before and after childbirth and create an environment where mothers can comfortably work even after childbirth



- Include public servants and private school employees in the employees' pension



- Continue discussion on measures to eliminate the feeling of unfairness in consideration of the directions of a new pension system (splitting method).
- O Review the old-age pension for active employees
- Examine the possibility of setting the amount of income above which the pension begins to be reduced for persons in their early 60s to the same amount as for persons in their late 60s

#### O Create a new pension system

- Promote discussions and infrastructure improvement for a national consensus toward the establishment of a new pension system that combines "earnings-related pension" and "minimum-guaranteed pension," followed by the submission of a bill to the 2013 Diet session



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- Enhance employment measures especially for young people
- Stabilize employment and improve treatment for non-regular workers



## An environment where everyone can work and live a stable life

- Addressing non-regular workers, who are growing in number these years, is especially important.

\*The percentage of non-regular employees in 2010 was the highest (34.4%) among comparable data since 2002.



## Major reforms under review

- Formulate a comprehensive vision setting as policy the direction of measures needed for ensuring fair treatment in order to stabilize employment of non-regular workers and improve their treatment
- O Clarify rules on the use of fixed-term labor contracts
- O Further promote equal and balanced treatment for part-time workers
- O Consider measures to secure jobs for all those wishing to work until the age of 65
- O Enhance employment support for new graduates and so-called freeters
- O Support early employment through the job-seeker support system

## Expected reform outcomes

- O Allow non-regular workers to make full use of their capabilities and work with peace of mind
- O Create a system whereby jobs are secured for all those wishing to work until the age of 65
- O Ensure stable employment of young people, who create the future
- O Support early employment through the job-seeker support system and improve job stability





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- Expand allocation of consumption tax revenue to medical care and childcare for the working generations
- Ensure that 50% of the basic pension is funded by the national treasury
- Help low-income earners e.g. by reducing their social insurance premiums for medical care and long-term care
- Ensure that social security is mainly financed by consumption tax revenue



Strengthening support for the working generations and letting every generation bear a fair share of the social security burden

## Major reforms under review

- Expand allocation of consumption tax revenue to the four costs of social security (pension, medical care, long-term care, and childcare) from the current three elderly costs (basic pension, elderly medical care, and long-term care)
- O Ensure that 50% of the basic pension is funded by the national treasury
- O Reduce low-income earners' insurance premiums for medical care and long-term care
- O Incrementally raise the consumption tax rate (national and local) to 8% in April 2014 and to 10% in October 2015

#### Expected reform outcomes

Increased expenditure on children and child raising allows every generation to approve of their burden.



A sustainable social security system is established with enhanced functionality to create a society where every citizen can live with peace of mind.



The burden is shared among every generation so that it would not be passed on to future generations.



## Secure stable financial resources for the social security system by 5% consumption tax increase

- Incrementally raise the consumption tax rate (national and local) to 8% in April 2014 and to 10% in October 2015
- Expand allocation of consumption tax revenue to the four costs of social security (pension, medical care, long-term care, and childcare) from the current three elderly costs (basic pension, elderly medical care, and long-term care)
- Clarify the use of consumption tax revenue (use consumption tax revenue to finance social security)
- Pass the entire consumption tax revenue to the people and not use it to enlarge government

Approx.

Approx.

Enhanced social security

Approx. ¥2.7 trillion more

Stable social security:
Protecting current social security
system

## **Approx. ¥10.8 trillion more**

- O 50% of pensions funded by the national treasury (incl. redemption costs for government compensation bonds for the pension)
- O Reduce burdens passed on to future generations
  - Approx. ¥7.0tn
- Current social security expenses involving increases due to aging (natural increase) and failure to secure stable financial resources
- O Increase in social security expenditures due to consumption tax increase

Approx. ¥0.8tn

Approx. ¥2.9tn

Increase in pensions and medical service fees along with price increases

Approx. ¥0.7tn

## OChildren and child-raising measures

 Resolution of the problem of the waiting-list children (quantitative expansion of childcare and after-school children's clubs), etc.

Up to little under ¥1.6tn

## OEnhancement of medical/long-term care

- Intensive input of medical care resources into highly acute phase (expanded inpatient medical care), enhancement of home medical/long-term care (from hospitals/institutions to communities and homes), etc.

Up to approx. ¥0.6tn

## OImprovement of pension system

- Added benefits to low-income earners, shorter eligible period to receive benefits, etc.
- Expansion of measures against poverty and income inequality (measures for low-income earners, etc.)

Up to approx. ¥1.4tn of the above (redundant)

- Reduction of social insurance contribution for low-income earners, total accumulation system, etc.

## Direction of reform

Extension of employees' pension to part-time workers

(Items under 
have no impact on public expenditure.)

Review of the No. 3 insured person system

Unification of employees' pension systems

## Enhance, prioritize and rationalize social security

O Examination of macroeconomic slide

■ To improve the function of social security, examine its prioritization and rationalization along with enhancement

Total budget required in FY 2015 (public expenditure) = approx. ¥2.7 trillion (up to ¥3.8 trillion minus up to ¥1.2 trillion) Major reforms under review Up to approx. Up to approx. Enhancement Prioritization and rationalization ¥3.8 trillion [Children and child raising] ¥1.2 trillion O Implementing new systems for children and child raising Quantitatively expand and structurally enhance day care for infants aged 0-2 years (resolution of the problem of the Approx. ¥0.7 trillion - Provide high-quality school education and childcare (integration of kindergarten and day nursery) [Medical/long-term care] O Prioritization, rationalization and functional enhancement of structure to provide medical and long-term care services - Establishment of an integrated legal framework for systematic review of medical/long-term care service fees and infrastructure Reduce average length of hospital stay (approx. ¥430 billion less) Promote appropriate outpatient consultation (approx. ¥120 billion less) Differentiate, strengthen and coordinate functions of hospitals and hospital beds and enhance in-home care Upto approx. ¥0.7trillion less Provide preventive long-term care and prevention of aggravation and prioritize long-term care facilities (shift to in-home (approx. ¥870 billion) Up to approx. ¥1.4 trillion Expand in-home long-term care services (approx. ¥250 billion ) Increase manpower for the above prioritization (approx, ¥240 billion) O Strengthening of the safety-net functions and prioritization of benefits in medical and long-term care insurance systems through functional enhancement of the insurers, and measures for regressiveness a. Expansion of the scope of application of the employee's health insurance, and stabilization, strengthening and regional widening of the financial base of the National Health Insurance (¥160 billion less in public expenditure if fully implemented) - Extend employee's health insurance to more part-time workers - Transfer fiscal management of the National Health Insurance from the municipal level to the prefectural level and strengthen the financial base Upto approx. ¥0.5trillion less Up to approx. ¥1 trillion (Further reduction of insurance premiums by low-income earners, etc. [up to approx. ¥220 billion]) Introduction of a long-term care levy in proportion to total amounts of wages Reinforcement of the factors of burden according to the person's capacity to bear the cost of long-term care (¥160 billion less if fully implemented) insurance, attention to low-income earners, and prioritization of benefits Focus on benefits effective in preventing aggravation, such as functional training for mild-degree persons Further reduction of the insurance premiums of Primary Insured Persons to be paid by low-income earners (up For the sustainability of the high-cost medical care benefit system, discuss its source of financing and measures needed for its improvement through a mutual support d. Others (up to approx. ¥0.4 trillion for total accumulation system) system of high-cost medical care benefits for insurers and prioritization of benefits. Review the elderly medical care system (based on report by the Elderly Medical Care System Reform Council, etc.) Establish a burden system that is fair to both the elderly and the young generations, introduce assistance calculation by the total remuneration rate, and review the self-pay burden [Pension] <Establishment of a new pension system> Everyone will join the only public pension system, which is comprised of the "earnings-related pension" and "minimum-guaranteed pension." O Earnings-related pension (social insurance system) O Minimum-guaranteed pension (tax financed) <Improvement of the current system> Review of pension benefits for high-income earners O Strengthening of the minimum-quarantee function (along with review of pension benefits for Examine along with additional benefits for low-income earners approx. ¥0.6 trillion If the reduction starts from an annual income of ¥10 million (and the portion paid by public expenditure is reduced to zero for those with an annual income of ¥15 high-income earners) million or over), the public expenditure will be about ¥45 billion less. Add benefits to low-income earners, increase the amount of the disability basic pension, shorten the eligibility period O Elimination of exceptions to the indexed pension

> Consideration of increase in the upper limit of standard remuneration \* Consider raising pensionable age (medium- to long-term issue) - If pensionable age for the basic pension is raised, public expenditure will decrease about ¥0.5 trillion annually for each year raised.

- With a simple macroeconomic slide by minus 0.9% each year, public expenditure will decrease by ¥0.1 trillion annually.

- Eliminate the exceptional level in 3 years to achieve a 2.5% reduction in pension payments and about a ¥0.1 trillion reduction in public expenditure annually

## Numerical assessment of service improvement

#### [Children and child raising]

Resolution of the problem of the waiting-list children for day nurseries to meet potential childcare needs 2010 2014 OWeekday daytime childcare (Approved day nurseries, etc.) 2.15 mil. children 2.41 mil. (0.75 million [23%]) (1.02 million [35%]) (Childcare service usage rate for children aged under 3) \*1.18 million (44%) by 2017 OExtended childcare service 0.79 million 0.96 million OCertified preschools 2,000 sites or more 358 sites (2009) OAfter-school children's clubs 0.81 million 1.11 million

#### Improvement of community childcare capabilities

2010 2014

○Community-based childcare support centers 7,100 sites (incl. those independently run by a municipality)

○Family Support Centers 637 municipalities ⇒ 950 municipalities

○Temporary childcare 3.48 mil. children in total (2008) ⇒ 39.52 mil.

#### [Medical/long-term care]

	FY 2011		FY 2025	
[Medical care ]	Number of hospital beds, average length of hospital stay	1.07 million beds, about 19-20 days	[Highly acute phase]	0.22 million beds, about 15-16 days
			[General acute phase]	0.46 million beds, about 9 days
			[Subacute phase, etc.]	0.35 million beds, about 60 days
	Number of doctors	0.29 million people	0.32-0.34 million people	
	Number of nurses	1.41 million people	1.95-2.05 million people	
	In-home medical care, etc. (per day)	Capacity for 0.17 million people	Capacity for 0.29 million people	
[Long-term care]	Number of users	4.26 million people	6.41 million people (1.5-fold) - 3% less in total as a result of preventive care and prevention of aggravation - Decrease in inpatients (shift to long-term care): 0.14 million people more	
	In-home long-term care Multifunctional small facilities Regular visiting/on-demand response services	Capacity for 3.04 million people Capacity for 0.05 million people —	Capacity for 4.49 million people (1.5-fold) Capacity for 0.40 million people (8.1-fold) Capacity for 0.15 million people (-)	
	Residential services Specified facilities Group homes	Capacity for 0.31 million people Capacity for 0.15 million people Capacity for 0.16 million people	Capacity for 0.61 million people (2.0-fold) Capacity for 0.24 million people (1.6-fold) Capacity for 0.37 million people (2.3-fold)	
	Long-term care facilities Special nursing homes Health services facilities (+long-term care sanatoriums)	Capacity for 0.92 million people Capacity for 0.48 million people (incl. units for 0.12 million [26%]) Capacity for 0.44 million people (incl. units for 0.02 million [4%])	Capacity for 1.31 million people (1.4-fold) Capacity for 0.72 million people (1.5-fold) (incl. units for 0.51 million [70%]) Capacity for 0.59 million people (1.3-fold) (incl. units for 0.29 million [50%])	
	Long-term care staff	1.40 million people	2.32 million to 2.44 million people	
	Home-visit nursing (per day)	Capacity for 0.29 million people	Capacity for 0.49 million people	

Social Security Reform Roadmap 2012 2013 2014 2015 [Children and child raising] Early implementation by securing a permanent source of financing (incremental implementation, starting with feasible measures, e.g. Children and child raising Council Establishment of a new system for children and child raising [provisional name] and basic national policy) Submission of new law [Medical/long-term care] Simultaneous Revision of medical service fees evision (1) Structure to provide medical services New medical care plan Bill submission (FY 2013-17) considered Revision of long-term care fees (2) Establishment of an integrated community care system New project plan (FY 2015-17) (3) Medical care and long-term care insurance systems Simultaneous implementation Reduction of premiums to Municipal National Health Insurance by low-income earners, Bill submission with fundamental tax reform Reduction of the insurance premiums of Primary Insured Persons to be paid by low-income Bill submission considered Source of financing and measures for improvement considered Review of the high-cost medical care benefit system (4) Elderly medical care system Bill submission -<Examination in view of legislation> (5) Measures for intractable diseases [Pension] Permanently fixing the national government's burden regarding the basic pension at 50% using Bill submission (1) Establishment of a new pension system consumption tax revenue after consumption tax increase Ensuring 50% burden sharing with budget expenditure and "government compensation bonds for the (2) Permanently fixing the national government's burden regarding pension" (provisional name) in FY 2012 Continuing discussion on how to deal with the issue for the period from FY 2013 until consumption tax Bill submission the basic pension at 50% Elimination in 3 years (FY 2012-14), with implementation in FY 2012 scheduled in October (3) Elimination of exceptions to the indexed pension Bill submission Simultaneous implementation with fundamental tax (4) Strengthening of the minimum-guarantee function reform Bill submission considered (5) Extension of employees' pension to more part-time workers (along with health insurance) Bill submission considered (6) Unification of employees' pension systems Bill submission considered <Continuing discussion> (7) Improvement of other existing systems Necessary bill submission Formulation of comprehensive vision for [Employment promotion & decent work] non-regular workers [Poverty &income inequality]
(1) Review of measures for the needy and the public assistance system Formulation of Living Support Strategy - <Bill submission considered> (provisional name) (swift improvement of implementation) Review of public assistance (2) Verification of public assistance standards standards as needed [Medical innovation] [Measures for people with disabilities] Bill submission 12