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Executive Summary

Stabilizing Japan's Healthcare System: Proposals for New Funding Sources

Introduction

Rising medical costs, rapid population aging, and sluggish economic growth are undermining the fiscal foundation that has supported Japan's universal health insurance system, and pressure on the country's social security system is greater than ever before. The traditional funding structure, which comprises out-of-pocket payments, insurance premiums, and public funds, has reached the limits of its ability to keep up with rising costs. This not only imposes an excessive burden on the working-age population but also narrows the government's fiscal options, threatening the viability of a system designed to provide equal access to medical care for all. With social security expenditures accounting for over one third of the national budget and existing revenue sources failing to keep pace with growing demand, Japan faces a critical challenge: how to develop new revenue-generating measures that transcend the current framework and maintain sustainable, high-quality healthcare.

Section 1: The Fiscal, Economic and Political Context of Healthcare Reform in Japan

Japan's approach to healthcare financing reflects a tripartite philosophy balancing self-pay (*jijo*), social insurance premiums (*kyojo*), and public tax funding (*kojo*). This hybrid model rested historically on a large, homogeneous working-age population, stable demographics, and broad-based economic growth. Those conditions have fundamentally changed. As income inequality widens, the demographic pyramid inverts, and growth stagnates, maintaining a uniform contribution structure is becoming both politically and fiscally untenable.

The fiscal pressures are acute. In FY2025, total central government expenditures are projected at approximately JPY 115.2 trillion, with social security consuming over one third and debt servicing nearly one quarter. Social security expenditure has risen from roughly 7 percent of GDP two decades ago to approximately 11 percent today, with total costs projected to continue rising through 2040. Public debt already exceeds 250 percent of GDP.



From the patient's perspective, Japan's healthcare system remains accessible and comparatively affordable. Yet the cost structure sustaining that access is weakening. Voters broadly support universal access and fear higher copayments will restrict care for those with limited means, while blanket tax increases are deeply unpopular amid stagnant real wages. The core reform challenge is not cost containment alone, but how Japan can preserve access, affordability, quality, and sustainability simultaneously. We suggest that the answer is to restructure the “who pays” equation in a way that is fiscally grounded, socially legitimate, and politically durable.

Section 2: New Sources of Revenue

Given Japan's constrained fiscal environment and competing spending priorities, redirecting existing funds to healthcare is neither viable nor sufficient. Japan must instead evaluate new revenue through tax- and contribution-based mechanisms, each carrying distinct fiscal, administrative, and political trade-offs. This section assesses eight such options we examined.

Alcohol and tobacco taxes

- Alcohol (JPY 1.16 trillion, USD 10 billion) and tobacco (JPY 470.9 billion, USD 3 billion) taxes could be redirected as sin taxes to support health related spending. However, declining consumption limits long-term revenue potential, making them better suited for temporary or supplementary funding.

Tourist Exit Tax

- Raising the tourist exit tax from JPY 1,000 (USD 6.51) to 3,000 (USD 19.52) or higher could boost revenue. Japan generated JPY 52.48 billion (USD 338 million) in FY2025 alone on the JPY 1,000 rate. However, tourist volumes are vulnerable to geopolitical shocks, and increased revenue will likely be used to address problems stemming from overtourism.

Consumption Tax Increases

- Japan collected JPY 25 trillion (USD 162 billion) from its consumption tax in FY2025. While a regressive tax, the tax reliably generates revenue unaffected by external shocks. Despite public resistance to past increases, Japan's rate (10 percent) remains lower than Europe's VAT (15–21 percent) and the OECD average (over 21 percent). The government has designated that the consumption tax revenues must be spent on social security, and there is broad public understanding that any increase should be tied to it.

Corporate Tax

- Corporate taxes generated about JPY 20 trillion (USD 130 billion) in FY2025, accounting for 16.7 percent of government revenue. Despite potential public



support for raising these taxes, concern remains over stymying economic growth and capital flight, meaning policymakers likely favor cuts or temporary relief.

Retained Earnings Tax

- Taxing retained earnings could draw on large pools of idle corporate cash and incentivize firms to raise wages or invest. Some critics view this as double taxation that could weaken corporate balance sheets and discourage prudent

Asset-Linked Insurance Premium Increase

- A financial asset tax could address inequality and ensure high-net-worth households contribute more, particularly if financial income other than wage income is added to the calculation base for health insurance and pension premiums. These sources of income are currently outside the income tax calculations for social security contributions. It is difficult valuing this other income, which makes implementation challenging and administratively costly.

Expanding Employer Premium Contributions

- Employers' premium contributions could be expanded in several ways to strengthen the financial sustainability of employer-sponsored insurance programs. One option would be to mandate broader coverage for nonregular workers who currently lack access to employer-subsidized healthcare. Another would be to factor companies' financial strength into the calculation of their contribution levels. While premiums are currently split evenly between employers and employees, this 50:50 arrangement is not fixed in law, and the employer share could be increased.

"One-Coin" Patient Co-Pay

- An additional, flat JPY 500 (USD 3.25) co-pay for all medical visits could help address overuse in Japan's healthcare system, particularly among seniors. This measure would discourage unnecessary doctor visits and subsidize medical costs.

Section 3: Expanding Insurance Premiums Based on Assets

Of the options assessed, the measure that best combines fiscal meaningfulness, equity justification, and political tractability is the expansion of insurance premium calculations to include asset-derived income, anchored in a fundamental reapplication of the ability-to-pay principle. The goal is to move away from a contribution structure that relies solely on existing labor income by strengthening the tax base to include "stock" assets, financial income, dividends, and real estate income. This challenge is



common to both the public funding and insurance premium sides of the financing equation.

Insurance premiums under Japan's employer-sponsored system are tied exclusively to earned income. As the workforce shrinks and wages stagnate, the premium base grows more slowly than the healthcare costs it is meant to fund. This mismatch is compounded by demographic aging: as the ratio of retirees to active workers rises, fewer contributors support a larger and more expensive pool of beneficiaries. The result is a system in which premium revenues track the fortunes of the labor market rather than the actual cost of care.

Japan's National Health Insurance has historically included a mechanism that partially linked premiums to property holdings via fixed asset tax. While this component has been largely phased out since the 2018 prefectural reform, its existence demonstrates that asset-linked premium calculations are not without precedent in Japan's social insurance architecture. The proposal advanced in this paper builds on that precedent by targeting the income flows generated by financial assets, rather than asset holdings themselves.

The individual case rests on both distributional and fiscal grounds. Wealth accumulation in Japan is increasingly concentrated among higher-income and older households, with income inequality rising sharply across the lifecycle. A retired household drawing primarily from investment income and a working household earning the same annual amount in wages face entirely different effective contribution rates under the current system. Reforming the premium base to include financial asset-derived income would partially correct this asymmetry. The principal challenges are administrative, as the My Number system is not yet fully integrated with financial account data, and political, as high-net-worth individuals represent a disproportionately reliable voting bloc.

The corporate case is supported by the scale of the divergence between corporate financial accumulation and employer social insurance contributions. Between 2002 and 2023, corporate retained earnings more than tripled to over JPY 600 trillion, while employer health insurance contributions rose only 56 percent. Total corporate financial assets reached JPY 1,673 trillion as of December 2025, more than doubling over the same period. A supplementary social contribution calculated on corporate financial income would introduce a more meaningful link between corporate financial capacity and social insurance obligations. Crucially, the employer-employee contribution split of 50:50 is not legally fixed, meaning that raising the employer's contribution ratio by adding a "wealth premium" to the corporate share, or raising the contribution cap specifically for employers, is administratively feasible without requiring complex structural reforms. This approach would align contribution levels



more closely with firms' true financial capacity while maintaining the employee's contribution rate at its current level.

Conclusion

Japan's healthcare system faces a financing gap that cannot be closed by reallocating existing budget lines or relying on instruments whose political and economic costs are prohibitive. Consumption tax increases, corporate rate hikes, and a retained earnings tax each face significant near-term barriers. Sin taxes and the tourist levy offer supplementary revenue but lack the scale required. The one-coin co-payment merits further exploration as a demand-side supplement, provided its design protects low-income access.

The measure that most effectively combines fiscal impact, distributional fairness, and political viability is the expansion of social insurance premium calculations to include asset-derived income for both individuals and corporations. This approach targets income flows rather than asset holdings, building on existing NHI precedent, closing an inequity in the contribution system, and broadening the revenue base without introducing a new tax instrument. Realizing this reform will require administrative investment in the My Number infrastructure, careful sequencing to build political consensus, and engagement across government ministries, the Diet, industry associations, and patient advocacy groups. The analysis presented in this paper aims to inform that process.

Expert Collaborators

This paper was developed in collaboration with the following individuals, who are leading authorities within their respective fields. While the findings are informed by collective discussions with these experts, the opinions, recommendations, and final conclusions expressed are solely those of the authors and do not represent the personal views of the consulted experts.

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